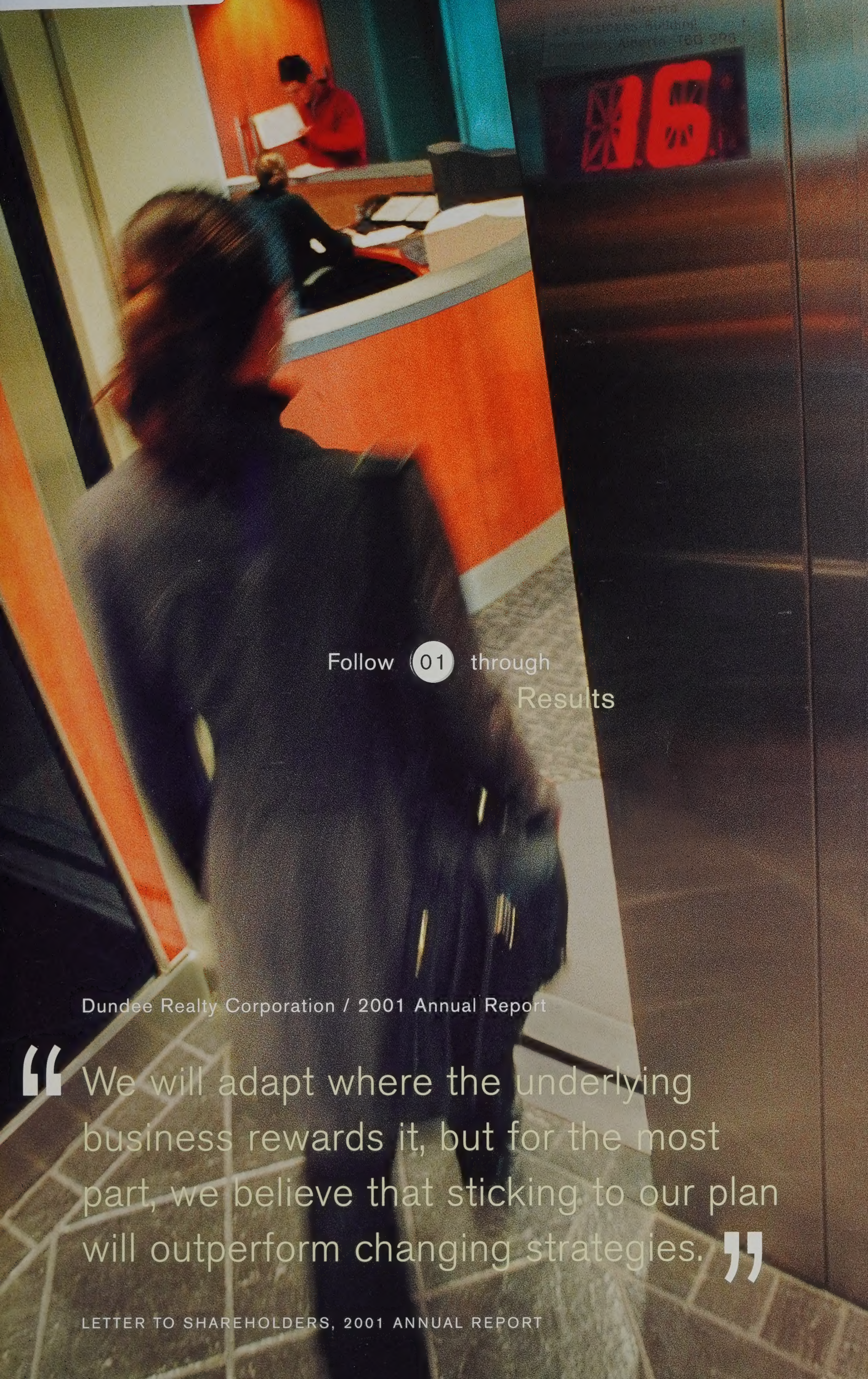


Follow 01 through Results

Dundee Realty Corporation / 2001 Annual Report

"We will adapt where the underlying business rewards it, but for the most part, we believe that sticking to our plan will outperform changing strategies."

LETTER TO SHAREHOLDERS, 2001 ANNUAL REPORT

Toronto-based Dundee Realty Corporation, with over $1 billion in assets and approximately $250 million in annual revenue, is one of Canada's leading providers of affordable business premises. Through innovative management and a conservative approach to financing, the Company has built a diversified portfolio of desirable high-quality space in the office, industrial and retail sectors totalling over 11 million square feet. In addition, the Company develops land and housing in selected markets in Ontario, Western Canada and Colorado. Dundee Realty continues to follow through on its strategy to increase shareholder value by adding value to its portfolio through acquisitions and development, capital improvements and innovative tenant services.

MICHAEL J. COOPER
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Letter to shareholders

This year's report is all about "follow-through". We've chosen to feature a few notable quotes from the past four years that we believe collectively illustrate an enduring philosophy at Dundee Realty. Each introduces a story of our follow-through from principle to performance. It's about finishing what we started. Building on our successes and core principles to capitalize on new opportunities. Being there for our tenants to deliver on our promises. Creating long-term value. Ensuring that our company endures through changing economic cycles. "Follow-through" is as much about where we're going, as where we've been.

During the year 2001, we were confronted with new challenges. The economy slowed, and many businesses had difficulty achieving their financial objectives. The economic and political events of the last year have led to a slowdown or recession that, as yet, does not resemble previous recessions.

In these uncertain times, Dundee Realty's conservative financial approach provides the Company with the flexibility to deal with unexpected events, and the ability to reap the benefits of past initiatives. During 2001, Dundee Realty had record-setting financial results. We were able to pay down debt and reduce our shares outstanding. We acquired and developed office properties, increasing our stabilized core office portfolio by about 500,000 square feet or 14%. We also reduced our non-core retail assets by 500,000 square feet or 21% and we disposed of our interest in Residential Equities REIT for $63 million.

Dundee Realty enters 2002 in its best shape ever. We will realize the full-year benefit of our new properties. Among them, State Street Financial Centre will have the most significant impact on our funds from operations. We have improved the quality of our portfolio through additions and dispositions, as well as capital improvements to our existing assets. We continue to experience increases in rents from renewals and new leasing. Even with moderate deterioration in occupancy levels, we expect to see our net operating income from revenue properties increase in 2002.

Our revenue property performance is complemented by our land and housing activities, which performed well in 2001. Over the past few years we have been working on several exciting projects that will generate increased funds from operations. The Pantages Tower in Toronto, Firelight Lodge in Colorado and Thornhill Woods in Toronto will be completed over the next few years. The Meadows development in Edmonton is starting to thrive, and we have many more years of land available. Along

> "We have been able to earn and compound historically high real returns and, as we follow through on our stated goals, we are well positioned to continue this growth."

with our projects in Calgary, Saskatoon and Regina, we are well positioned to produce increasing cash flow in the years ahead.

While our operating style is financially conservative – ensuring our survival through adverse events – when favourable opportunities are found, we pursue them aggressively. Over the last few years, we have been single-mindedly focused on building a great operating business with an experienced, dynamic management team. Our operations and assets improve each year. Due to relative valuations in the financial markets, we have pursued opportunities to grow our business rapidly and profitably by issuing equity; and more recently, we have grown our business more slowly and profitably by repurchasing our shares. Similarly, in the real estate markets, we have seen value-added opportunities in revenue properties as well as land and housing. We embrace all of these chances to increase the value of our business equally.

After the real estate difficulties of the early 1990s, our industry has recovered steadily and consistently. The conservatism and discipline that we now enjoy is likely to prolong its continued growth.

We will maintain our discipline through changing and challenging times. We will pay close attention to changes in our environment. We will adapt where the underlying business rewards it, but for the most part, we believe that sticking to our plan will outperform changing strategies.

From time to time, our industry will look more or less attractive than other industries. Overall, we believe that we are in an excellent industry at an opportune time. We have been able to earn and compound historically high real returns and, as we follow through on our stated goals, we are well positioned to continue this growth.

MICHAEL J. COOPER
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

NED GOODMAN
CHAIRMAN OF THE BOARD

Financial highlights

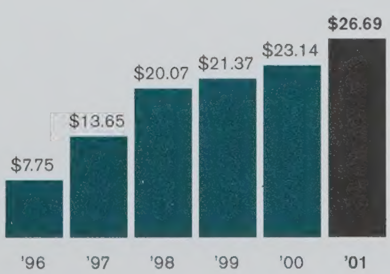
For the Years Ended December 31	**2001**	2000	1999	1998	1997	1996
Financial position (in thousands)						
Revenue properties assets	**$ 909,805**	$ 867,718	$ 877,523	$ 822,811	$ 108,834	$ 34,968
Total assets	**1,118,171**	1,107,962	1,107,926	1,069,897	216,446	68,617
Debt	**558,064**	550,652	556,293	506,949	53,133	19,623
Shareholders' equity	**462,174**	464,434	464,777	477,341	135,895	43,883
Book value per share	**26.69**	23.14	21.37	20.07	13.65	7.75
Operating results (in thousands)						
Revenue	**$ 249,786**	$ 234,049	$ 227,370	$ 180,350	$ 68,330	$ 11,001
EBITDA[1]	**87,080**	84,300	76,637	63,297	11,967	1,316
Net income	**33,069**	15,261	13,177	17,643	6,346	578
Net income per share – diluted	**1.71**	0.73	0.58	0.88	0.77	0.38
Funds from operations	**48,779**	43,517	41,564	37,326	10,113	713
Funds from operations per share – diluted	**2.52**	2.08	1.83	1.86	1.23	0.44
Common shares (in thousands)						
Outstanding at year end	**17,315**	20,067	21,746	23,783	9,956	5,666
Weighted average outstanding						
Basic	**18,865**	20,642	22,416	16,735	7,969	1,213
Diluted	**19,339**	20,943	22,731	20,108	8,236	2,012
Ratios						
EBITDA coverage of interest expense	**2.43**	2.23	2.42	2.96	15.3	2.25
Percentage of floating rate debt	**17%**	17%	16%	18%	4%	15%
Debt to equity	**1.21**	1.19	1.20	1.06	0.39	0.45
Share price at year end	**13.50**	12.16	11.68	11.60	23.20	16.80

(1) Earnings before interest taxes, depreciation and amortization

Segment Income
(in thousands)

Diluted FFO per Share

Book Value per Share

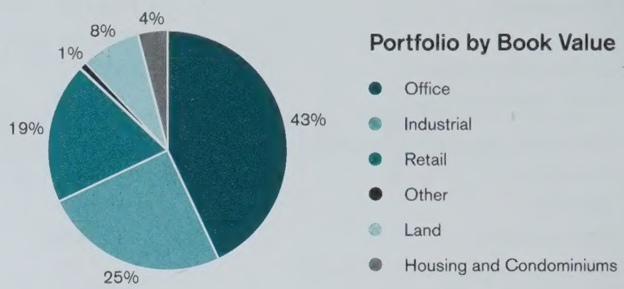


Management's discussion and analysis

Introduction

Based in Toronto, Ontario, Dundee Realty Corporation ("Dundee Realty" or "the Company") is a diversified company engaged in three different sectors of the real estate industry:

- Ownership and management of commercial revenue properties – 180 well-located office, suburban industrial and retail properties comprising approximately 11.8 million square feet;
- Land development – development of master planned residential communities and commercial sites; and
- Home and condominium construction – build and sell an average of 150 homes annually.



Vision and Strategy

Our strategy is to increase shareholder value through managing, improving and adding to our diversified real estate portfolio. We minimize our risk exposure by owning real estate assets that are diversified by geographic location, asset type and asset class. We target a broad tenant base for our revenue producing properties that is not overly dependent on any single economic sector or any single tenant. In addition, we focus mainly on those asset classes in which we have a competitive advantage.

Generally, our investment strategy is long-term buy and hold. When we identify undervalued situations, we tend to exploit them opportunistically. We review all of our assets yearly to identify areas in which to invest to enhance value and to identify assets that no longer fit our long-term strategy. This year, we have strengthened our cash position and further mitigated our debt exposure by refinancing a significant portion of our debt and lowering our average interest rate. As a result, we are well positioned to seek out opportunities in a challenging North American economy. Notwithstanding the current economic slowdown, we anticipate growth next year as measured by revenue, assets and funds from operations.

Overview of Core Businesses

Office Revenue Properties

Dundee Realty's office assets are concentrated in our core Canadian markets: Montréal, Ottawa, Toronto, Calgary, Edmonton and Vancouver. Our office portfolio increased in 2001 to include 57 office buildings comprising approximately 3.8 million square feet. This growth is largely a result of the completion and occupancy of State Street Financial Centre in Toronto, increased ownership interest in Centennial Centre in Toronto, and the acquisition of the Roslyn Building in Calgary.

We have an experienced team of leasing professionals who work diligently to ensure that our buildings remain full, and that we maintain good relationships in the brokerage community. For the year ended December 31, 2001, our stabilized office portfolio enjoyed an impressive 94.5% occupancy rate, well ahead of the national industry average of 91.2%. In addition, maintaining and upgrading the quality of our assets is a priority not only for us but also for our current and prospective tenants.

Industrial Revenue Properties

Dundee Realty owns a portfolio of 112 prime suburban industrial and flex space buildings comprising approximately 6.1 million square feet, concentrated in Montréal, Toronto, Calgary and Edmonton. Our strategy of owning clusters of properties helps us to respond to tenants' needs to adjust the size and functionality of their space during times of change in their operations and their workforce.

At the end of 2001, the average occupancy rate across our stabilized industrial portfolio remained strong at 94.8%, although this is slightly below the national industry average of 95.5%.

Retail and Other Revenue Properties

The Company's core retail assets are Northgate Mall in Regina; Greenbriar Mall in Atlanta; and Westmount Centre in Edmonton. These core assets comprise 1.1 million square feet of our total retail portfolio of approximately 1.9 million square feet. The portfolio has a current occupancy rate of 91.0%.

We have long stated our intention to sell certain non-core assets as the right opportunities arise and redirect those funds into our core Canadian office and industrial portfolio. Further progress was made in this disposition strategy with the sale of four non-core retail properties in 2001.

The "other" category includes the Company's continued interest in a hotel in Western Canada. In addition, the Company owns a ski area operation in Colorado.

Land and Housing

The core activities of the land and housing group are concentrated in Saskatoon and Regina, Saskatchewan; Calgary and Edmonton, Alberta; Beaver Creek, Colorado; and Toronto, Ontario. The primary business of the land group is the acquisition and servicing of land for resale to residential and commercial developers. An important part of the mandate of the housing operation is to facilitate the sale of lots developed by the land division. The housing operation also constructs new homes on land developed by third parties. The Company develops major condominium projects in Toronto and Beaver Creek.

Property Management

Dundee Realty has approximately 14.8 million square feet of revenue properties under its management, including 11.6 million square feet of owned assets. The Company's focus is on providing our tenants with exceptional property management service. We place a priority on efficient, thorough and timely responses to tenant requests and endeavour to anticipate and meet all of their real estate needs so that they may concentrate on operating their businesses.

Through our dundee@work program of service initiatives we focus on providing our office buildings and tenants with service excellence and operating cost reductions. From responding to online maintenance requests to providing leading-edge technologies, we help our tenants to run their businesses more efficiently and cost-effectively.

Key activities and highlights in 2001 include:

- The increase in diluted funds from operations per share to $2.52, up 21.2% from 2000;
- The sale of the Company's interest in Residential Equities Real Estate Investment Trust ("ResREIT") and its interest in Dundee Greenwin Advisor for proceeds of $63 million;
- The completion of the State Street Financial Centre in Toronto;
- The purchase of the Roslyn Building in Calgary, the remaining 50% of Centennial Centre in Toronto, and an additional 8.6% of Capitol Square in Ottawa;
- The reduction of the Company's weighted average interest rate to 7.0%; and
- The repurchase and cancellation of 2.7 million shares.

Discussion and Analysis

The following discussion and analysis of the consolidated financial position and results of operations is based primarily on the consolidated financial statements of the Company for the years ended December 31, 2001 and 2000. It should be read in conjunction with the consolidated financial statements and notes contained in this Annual Report.

All amounts in the following discussion are presented in thousands of dollars with the exception of square footage, unit volume, acreage, and number of common shares and per share amounts.

Performance Measurement

Management believes that important measures of the Company's operating performance include funds from operations ("FFO") and, to a lesser degree, earnings before interest, taxes, depreciation and amortization ("EBITDA") and return on equity. FFO is defined as net income (computed in accordance with Canadian Generally Accepted Accounting Principles ("GAAP")) plus amortization and depreciation, plus deferred income taxes and excluding gains or losses from the sale and diminution in value of assets. This measurement is generally accepted as the most meaningful and useful measure of performance of real estate operations. It does not represent cash flow from operating activities as defined by GAAP and is not necessarily indicative of cash available to fund the Company's needs and should not be considered the only measure of liquidity.

EBITDA is relevant to an understanding of the economics of the real estate business as it is a measure of the funds available from operations to service debt and satisfy certain fixed obligations. EBITDA should not be construed as an alternative to net income or FFO as an indicator of the Company's performance or to cash flow from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

The following table outlines the Company's performance as measured by these key indicators:

	2001	2000
Revenue properties: Office	$ 35,473	$ 31,890
Industrial	23,075	23,088
Retail	17,019	18,074
Other	501	1,653
Total revenue properties	76,068	74,705
Land	8,375	7,780
Housing and condominiums	2,123	(203)
Property management	3,649	3,821
Interest and other income	5,217	4,654
Net operating income	95,432	90,757
General and administrative expenses	8,352	6,457
EBITDA	87,080	84,300
Interest expense	35,884	37,784
Current income and large corporations taxes	2,417	2,999
Funds from operations	48,779	43,517
Depreciation and amortization	15,282	14,299
Future income tax	7,300	794
	26,197	28,424
Gain (loss) on sale and provision for diminution in value of assets	6,872	(13,163)
Net income	$ 33,069	$ 15,261
Net income per share: Basic	$ 1.75	$ 0.74
Diluted	$ 1.71	$ 0.73
Funds from operations per share: Basic	$ 2.59	$ 2.11
Diluted	$ 2.52	$ 2.08

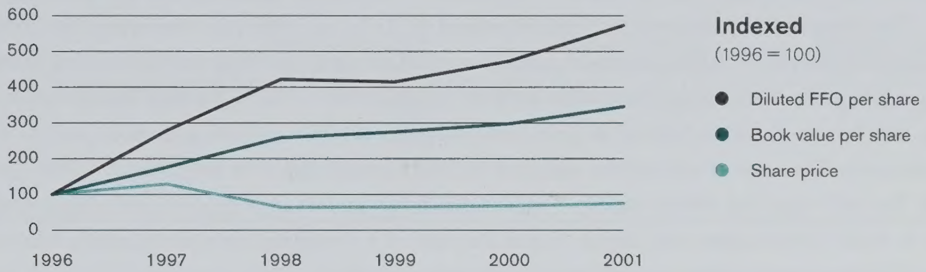
EBITDA increased by $2,780 or 3.3% in 2001. The main drivers of this improvement were increases in net operating income ("NOI") from the revenue properties and the land and housing segments.

Funds from operations grew by $5,262 or 12.1% compared to 2000. This change in FFO was due to increased NOI from revenue properties and land and housing, as well as lower interest rates and lower current tax. Diluted FFO per share increased by 21.2% to $2.52 per share in 2001. The increased growth on a per share basis is a result of share repurchases made by the Company throughout 2000 and 2001. Since 1996, diluted FFO per share has increased at a compounded annual growth rate of 41.8%.

Net income increased $17,808 or 116.7% over 2000. This significant increase in net income is due to substantial improvements in operating performance and overall gains on the sale of the portfolio investments in 2001 versus the provision for diminution in value of revenue properties in 2000. Diluted net income per share increased 134.2% to $1.71. Since 1996, diluted net income per share has increased at a compounded annual growth rate of 35.1%.

At December 31, 2001, the book value per common share was $26.69 compared to $23.14 in 2000, representing an increase of 15.3%. Basic FFO per share of $2.59 in 2001 represents a 9.7% trailing return on basic book value. Based on the market price of $13.50 per share at the end of the year, the trailing FFO return was 19.2%.

The chart below illustrates the comparable growth in diluted FFO and book value per share as well as the share price indexed to 1996 as the base year.



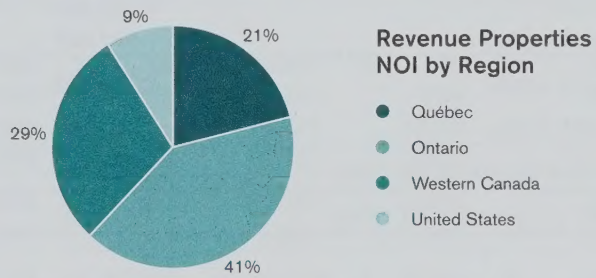
Results of Operations

Revenue Properties

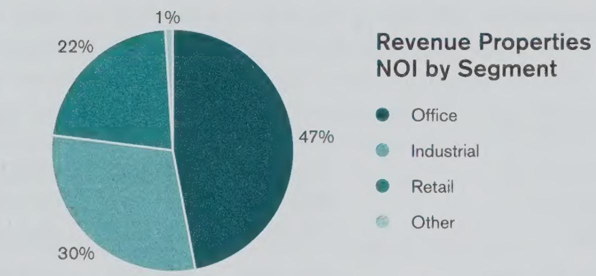
Revenue properties is the Company's primary business unit and is divided into four distinct operating segments: office, industrial, retail and other.

The following tables show the distribution of the net operating income by geographic region and for each revenue properties operating segment:

			Growth	
	2001	2000	Amount	%
Québec	$ 15,925	$ 15,846	$ 79	–
Ontario	30,763	26,984	3,779	14
Western Canada	22,260	23,224	(964)	(4)
Total Canada	68,948	66,054	2,894	4
United States	7,120	8,651	(1,531)	(18)
Total	$ 76,068	$ 74,705	$ 1,363	2



			Growth	
	2001	2000	Amount	%
Office	$ 35,473	$ 31,890	$ 3,583	11
Industrial	23,075	23,088	(13)	–
Retail	17,019	18,074	(1,055)	(6)
Other	501	1,653	(1,152)	(70)
Total	$ 76,068	$ 74,705	$ 1,363	2



The following table shows the distribution of comparative net operating income for each revenue properties operating segment:

			Growth	
	2001	2000	Amount	%
Office	$ 33,379	$ 29,911	$ 3,468	12
Industrial	23,005	22,592	413	2
Retail	15,132	16,060	(928)	(6)
Other	537	1,537	(1,000)	(65)
Total comparative properties	$ 72,053	$ 70,100	$ 1,953	3
Under development	80	–	80	
Developed and operating	542	–	542	
Acquisitions	550	–	550	
Dispositions	808	2,510	(1,702)	
Lease surrenders	2,035	2,095	(60)	
Total	$ 76,068	$ 74,705	$ 1,363	2

Net operating income in the office segment increased by $3,583 or 11.2%, based on a 14.0% increase from the Ontario office portfolio. Higher than average occupancy rates and improved rental rates in the comparative Toronto office buildings accounted for

$2,584 of this increase. On this same basis, which excludes lease surrender payments, NOI from the Québec office portfolio increased by 9.4% and the Western office portfolio increased by 4.0% in 2001. Contributing to the increase in NOI was $1,092 generated from the completion of the State Street Financial Centre in October and the acquisitions of the Roslyn Building in October; 50% of Centennial Centre in November; and 8.6% of Capitol Square between April and October of 2001.

The comparative industrial portfolio increased by $413 or 1.8% year-over-year. The comparative Toronto portfolio showed substantial growth of 15.0% year-over-year, as a result of higher average occupancy and increased base rents on renewals and new leasing. The comparative Edmonton portfolio experienced a 16.9% decline, largely due to increased vacancy.

NOI for the Company's retail segment decreased by $1,055 or 5.8% year-over-year, as a result of the sale of four non-core retail assets. The core retail portfolio declined by 0.9%, largely due to a decrease in NOI at Greenbriar Mall.

The NOI from the "other" segment has continued to decline on a proportionate basis and represented only 0.7% of total NOI in 2001. This decline was largely due to the sale of a residential revenue property, reduced NOI from the ski area operation, and a relative overall increase in NOI from revenue properties.

Although a substantial portion of our operating base remains in Ontario, the geographic distribution of the net operating income is well diversified across the major regions of Canada.

At year end, the revenue properties consisted of the following components by gross leasable area:

	Proportionate Gross Leasable Area (in square feet)				
	2001				2000
	Office	Industrial	Retail	Total	Total
Québec	**752,402**	**2,818,711**	–	**3,571,113**	3,557,879
Ontario	**2,331,240**	**1,336,561**	**487,566**	**4,155,367**	4,424,654
Western Canada	**691,827**	**1,973,174**	**537,292**	**3,202,293**	3,174,397
Total Canada	**3,775,469**	**6,128,446**	**1,024,858**	**10,928,773**	11,156,930
United States	**33,285**	–	**871,572**	**904,857**	904,729
Total at December 31, 2001	**3,808,754**	**6,128,446**	**1,896,430**	**11,833,630**	12,061,659
Total at December 31, 2000	3,532,131	6,110,249	2,419,279	12,061,659	

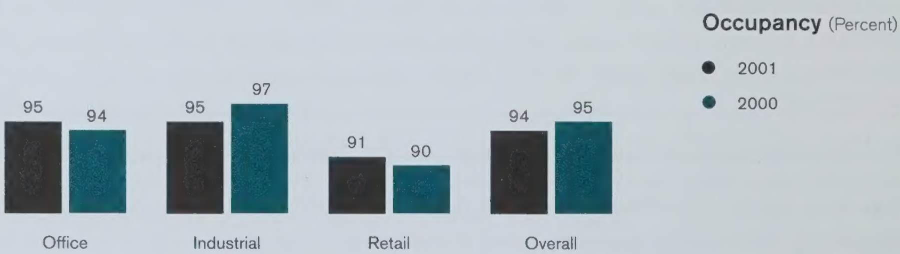
At December 31, 2001, the Company owned 11.8 million square feet of commercial revenue properties. Owned square footage decreased by 1.9% during the year as a result of our retail disposition strategy.

The lease maturity profile of the 11.7 million square feet of stabilized commercial revenue properties was as follows:

(in square feet)	Current Vacancy	Monthly Tenancies	2002	2003	2004	2005	2006+	Total
Office	209,526	48,397	435,311	583,996	470,038	382,907	1,678,579	3,808,754
Industrial	311,250	84,215	852,025	1,186,108	871,439	904,418	1,740,991	5,950,446
Retail	170,782	41,325	154,701	134,788	135,825	252,680	1,006,329	1,896,430
Total stabilized	691,558	173,937	1,442,037	1,904,892	1,477,302	1,540,005	4,425,899	11,655,630
Percentage	5.9%	1.5%	12.4%	16.3%	12.7%	13.2%	38.0%	100%
Under development								178,000
Total								11,833,630

The Company has approximately 41.4% of its leases maturing during the next three years. When this is added to current vacancy and monthly tenancies, about 5.7 million square feet or 48.8% of the stabilized portfolio will be available for renewal or re-leasing prior to the end of 2004. Dundee Realty will continue to capture the uplift in market rents that has occurred over the past several years.

On a segmented basis, occupancy in the stabilized commercial revenue properties portfolio was as follows:



The rental market has been strong over the past few years, and rental rates have increased in the asset classes and regions in which the Company operates. The following table compares the current weighted average in-place contract rents to estimated current market rents for similar quality space in the respective region. The average market rent has been estimated through reference to recent leasing activity and leasing interest in the Company's properties as well as leasing activity in comparable properties.

	Average Remaining Lease Term (years)	Average In-place Contract Rent (per sq. ft.)	Estimated Current Market Rent (per sq. ft.)
Office	4.7	$ 11.86	$ 14.18
Industrial	3.5	4.51	5.08
Retail	6.2	10.60	11.18
Overall	4.3	7.88	9.03

While the Company anticipates that the current economic uncertainty will result in an increase in portfolio vacancy in 2002, improved rental rates on renewals and new leasing as well as the impact of acquisitions and developments in the office portfolio in 2001 should result in increased revenue property NOI.

Land Development

The net operating income from the land division increased $595 or 7.6% in 2001. NOI from land represented 8.8% of the total NOI in 2001, up slightly from 8.6% in 2000.

	2001			2000			
	Gross Revenue	Cost of Sales	Net Operating Income	Gross Revenue	Cost of Sales	Net Operating Income	Change in Net Operating Income
Single family lots:							
Saskatoon	**$ 5,281**	**$ 4,391**	**$ 890**	$ 2,756	$ 2,610	$ 146	**$ 744**
Regina	**4,138**	**3,743**	**395**	4,691	4,497	194	**201**
Edmonton	**13,081**	**10,695**	**2,386**	9,593	8,310	1,283	**1,103**
Calgary	**9,131**	**6,468**	**2,663**	9,208	5,368	3,840	**(1,177)**
Total single family lots	**31,631**	**25,297**	**6,334**	26,248	20,785	5,463	**871**
Parcel sales	**8,079**	**6,038**	**2,041**	7,649	5,332	2,317	**(276)**
Total	**$ 39,710**	**$ 31,335**	**$ 8,375**	$ 33,897	$ 26,117	$ 7,780	**$ 595**

During the year, 664 single family lots (2000 – 555) and 91 acres of parcel sales (2000 – 87) were recorded, representing increases of 19.6% and 4.6% respectively. Although the acreage of parcel sales was up year-over-year, overall contribution decreased by 11.9% due to lower sales margins. The volume analysis and backlog of sales (lots under option) was as follows:

	2001			2000			Change	
	Sold	Average Selling Price	Under Option at Year End	Sold	Average Selling Price	Under Option at Year End	Sold	Under Option at Year End
Single family lots:								
Saskatoon	**131**	**$ 40**	**35**	75	$ 37	27	**56**	**8**
Regina	**120**	**34**	**29**	153	31	31	**(33)**	**(2)**
Edmonton	**296**	**44**	**150**	205	47	–	**91**	**150**
Calgary	**117**	**78**	**16**	122	75	–	**(5)**	**16**
Total single family lots	**664**	**$ 48**	**230**	555	$ 47	58	**109**	**172**
Parcel sales (acres)	**91**	**$ 89**	**13**	87	$ 88	11	**4**	**2**

In Saskatoon, the lot sales volume increased by 74.7% and the average selling price increased by 9.7%. In 2001, NOI from our operations in Saskatoon was up 509.6%. We expect that the strength in lot sales volume will continue into the first quarter of 2002 as the lots under option at year end were up 29.6%.

In Regina, the lot sales volume decreased by 21.6%, however, the average selling price and the average margin increased resulting in an increase in NOI of 103.6%.

Lot sales in Edmonton increased by 44.4%, although the average selling price decreased by 5.6%. Overall, the NOI from Edmonton was up by 86.0% over 2000, reflecting the successful launch of the new Millcreek Meadows neighbourhood in 2001.

In Calgary, the fourth and final phase of our Springside community, Springside Park, was launched. The average selling price increased by 3.4%, however, the sales volume was down slightly from 2000 and the margins have been reduced due to an increase in the cost of the land acquired for this phase compared to the land originally purchased for Springside. The result was a 30.7% decrease in NOI from this location.

During 2001, the Company's activities included the development of 958 lots compared to 488 lots in 2000. The continuity of the lot inventory is summarized as follows:

	Lot Inventory at December 31, 2000	Lots Developed in 2001	Lots Sold in 2001	Lot Inventory at December 31, 2001
Saskatoon	92	**147**	**131**	**108**
Regina	135	**143**	**120**	**158**
Edmonton	135	**339**	**296**	**178**
Calgary	49	**129**	**117**	**61**
Toronto	–	**200**	**–**	**200**
Total	411	**958**	**664**	**705**

Development commenced on the Thornhill Woods neighbourhood in Toronto during the year. It is anticipated that completion of this joint-venture development, which includes the Company's 200 lots, will take three to four years.

Housing and Condominiums

The following table summarizes the operating performance of the housing and condominium construction activities:

	2001			2000			
	Gross Revenue	Cost of Sales	Net Operating Income	Gross Revenue	Cost of Sales	Net Operating Income	Change in Net Operating Income
Saskatoon	**$ 8,694**	**$ 8,949**	**$ (255)**	$ 9,572	$ 9,818	$ (246)	**$ (9)**
Regina	**6,464**	**6,852**	**(388)**	8,311	8,674	(363)	**(25)**
Beaver Creek	**23,378**	**20,474**	**2,904**	4,965	4,305	660	**2,244**
Toronto	**–**	**138**	**(138)**	9,157	9,411	(254)	**116**
Total	**$ 38,536**	**$ 36,413**	**$ 2,123**	$ 32,005	$ 32,208	$ (203)	**$ 2,326**

The volume of homes sold and occupied during the year and the backlog of uncompleted agreements (pre-sold units under construction) is summarized as follows:

	2001				2000			
	Number of Units Sold	Average Selling Price	Inventory at Year End	Uncompleted Pre-sold Units at Year End	Number of Units Sold	Average Selling Price	Inventory at Year End	Uncompleted Pre-sold Units at Year End
Saskatoon	**52**	**$ 176**	**18**	**11**	58	$ 184	17	8
Regina	**53**	**150**	**19**	**10**	63	156	15	17
Beaver Creek	**13**	**1,798**	**10**	**5**	7	709	3	14
Toronto	**–**	**–**	**5**	**167**	58	158	31	141
Total	**118**	**$ 343**	**52**	**193**	186	$ 186	66	180

Net operating income from this segment increased significantly in 2001 to $2,123 from a loss in 2000. This increase is largely the result of increased sales and selling prices of the condominium units in Beaver Creek. At year end, 118 single family units were sold, down 36.6% from 2000.

The overall NOI from Saskatoon declined in 2001 due to a combination of six fewer unit sales and a 4.4% decrease in the average selling price compared to 2000. In Regina, the gross margins realized on the unit sales increased by 1.2% but sales volume decreased by 10 units, resulting in a net nominal decrease in the NOI for 2001. Both of these housing operations continue to be instrumental in facilitating lot sales for their respective land divisions, however, they are currently experiencing difficult economic conditions.

In Colorado, sales volume increased by six units as the first 13 units of Settler's Lodge were completed and sold in 2001. Sales at Firelight Lodge, an 11-unit condominium project in Beaver Creek that is currently under construction, will be recognized in 2002.

Property Management

The Company's property management revenue consists of management fees, leasing and construction fees, real estate advisory fees and land development management fees earned from third-party property owners. The costs allocated to the management, leasing and commercial fee business consist of property management expenditures associated with all personnel and facilities involved in the provision of such services. The Company charges market rate fees for management services provided to its owned

properties, which are allocated as an operating expense to individual properties. This fee revenue is then deducted from the property management costs to arrive at the net costs associated with third-party management. The following table summarizes the net operating income for these activities:

	2001	2000	Change	%
Revenue	$ 6,326	$ 7,348	$ (1,022)	(14)
Costs	2,677	3,527	850	24
Total	$ 3,649	$ 3,821	$ (172)	(5)

Gross revenue from property management declined by $1,022 or 13.9%, however, this was partially offset by an $850 or 24.1% decline in costs. The decline in gross revenue was primarily the result of the sale of Dundee Greenwin Advisor in June 2001. The gain on the sale from this transaction is included in interest and other income and is discussed below. Fees are projected to continue to decline in 2002 due to the impact of this sale and a projected reduction in development fees.

The decline in costs in 2001 was due to the allocation of additional overhead costs to recoverable revenue property operating expenses, and the capitalization of overhead to major development projects. Costs are projected to decline further in 2002 due to reductions in development staffing and reduced overhead costs relating to Dundee Greenwin Advisor.

Interest and Other Income

Interest and other income consists of interest earned on surplus cash and interest bearing amounts receivable that the Company may have from time to time, as well as the return received on various portfolio investments. Interest and other income consisted of:

	2001	2000
Distributions from ResREIT	$ 1,918	$ 3,270
Gain on sale of Dundee Greenwin Advisor	1,756	–
Interest income	1,199	1,261
Profit participation for sale of managed revenue properties	1,048	–
Other	69	123
Provision for loans receivable	(773)	–
Interest and other income	$ 5,217	$ 4,654

Distributions from ResREIT declined relative to the prior year due to the sale of 3,726,800 units over the course of the year. On June 6, 2001, the Company sold its 50% interest in Dundee Greenwin Advisor ("the Advisor") for proceeds of $10,529. The Advisor's primary asset was a contract to provide management advisory services to ResREIT. As part of the transaction, LT Greenwin Property Management, another company in which Dundee Realty owns a 50% interest, agreed with ResREIT to reduce the fees payable by ResREIT to it under its property management agreement and to an extension of the contract to at least February 2005. After applying $7,891 of goodwill and $882 of closing expenses, the Company recorded a net gain of $1,756 from the sale of the Advisor. During the year, interest income decreased by $62 or 4.9%, largely as a result of lower interest rates.

Interest Expense

Interest is capitalized to land, housing under development and revenue properties under development. The capitalized interest to land and housing flows through cost of sales as developed units are sold.

The continuity of capitalized interest was as outlined in the following table:

	Revenue Properties	Land	Housing and Condominiums	Total
Interest capitalized in 2001	$ 1,438	$ 1,620	$ 1,996	$ 5,054
Capitalized interest expensed to cost of sales during 2001	–	(953)	(783)	(1,736)
Net	$ 1,438	$ 667	$ 1,213	$ 3,318

The interest capitalized to revenue properties included $1,283 in respect of the redevelopment of the State Street Financial Centre and $106 in respect of the redevelopment of Westmount Centre.

The interest capitalized to housing condominium projects included $1,346 capitalized to Pantages Tower in Toronto and $284 to Settler's Lodge in Beaver Creek.

Gain (Loss) on Sale and Provision for Diminution in Value of Assets

The gain on sale of portfolio investments was due to the sale of ResREIT units. On July 24, 2001 the Company disposed of 3,500,000 units for $14.10 per unit and an additional 226,800 units were sold on September 28, 2001 for $14.00 per unit.

The provision for diminution in value of land held for development of $5,034 was due to the writedown in the value of the Lebourgneuf land in Québec City, Québec.

Current Income and Large Corporations Taxes

The Company was subject to large corporations taxes in Canada and corporate minimum tax in Ontario. The Company was not subject to income tax due to the application of loss carryforwards and other deductions.

Current income and large corporations taxes expense was as follows:

	2001	2000
Large corporations taxes	$ 1,595	$ 1,763
Corporate minimum tax	822	864
Income tax (United States)	–	372
Current income and large corporations taxes	$ 2,417	$ 2,999

The Company believes it has sufficient tax losses available to shelter earnings for the next fiscal year.

Future Income Tax

The provision for future income taxes includes a benefit for the reduction in future tax liabilities resulting from the decrease in tax rates expected to apply when the liabilities are settled. Included in this reduction is a non-recurring benefit related to those tax rate reductions substantially enacted in the year.

In addition, the Company completed a reorganization of its United States ("U.S.") corporate structure that allows for the future utilization of previously unrecognized tax losses.

The impact of these items on future income tax expense was as follows:

	2001	2000
Future income tax expense based on temporary differences arising (or reversing) during the year	$ 15,775	$ 8,933
Impact of reduction in future income tax rates used to measure future income tax liabilities as at December 31, 2001		
– enacted in the current year	(3,800)	(7,053)
– other	(2,064)	(1,086)
Recognition of U.S. tax loss carryforwards	(2,611)	–
Future income tax expense	$ 7,300	$ 794

Financial Condition

Overview of Balance Sheets

For the purposes of the following table, certain balance sheet accounts have been regrouped. Working capital is defined as amounts receivable and other assets, plus cash and short term deposits, less amounts payable and accrued liabilities:

	2001	%	2000	%	Change
Revenue properties	$ 909,805	85	$ 867,718	82	$ 42,087
Land, housing and condominiums	123,135	12	110,913	11	12,222
Portfolio investments	–	–	32,370	3	(32,370)
Working capital	33,323	3	41,391	4	(8,068)
	$ 1,066,263	100	$1,052,392	100	$ 13,871
Debt	$ 558,064	52	$ 550,652	52	$ (7,412)
Future income tax liability	46,025	5	37,306	4	(8,719)
Retained earnings and foreign currency translation adjustment	66,819	6	31,366	3	(35,453)
Share capital	395,355	37	433,068	41	37,713
	$ 1,066,263	100	$1,052,392	100	$ (13,871)
Debt-to-equity ratio	1.21		1.19		

This table illustrates the Company's investment strategy in 2001. While maintaining a conservative debt-to-equity ratio, the Company has reinvested its retained earnings and its returns from divesting lower yielding assets, such as its portfolio investments and working capital, into higher yielding and lower risk areas, primarily share capital and revenue properties.

Overview of Assets

The composition of the Company's operations has remained constant from 2000 to 2001, with revenue properties representing 88% of total assets at December 31, 2001.

The following table illustrates the geographic exposure of the Company's real estate assets.

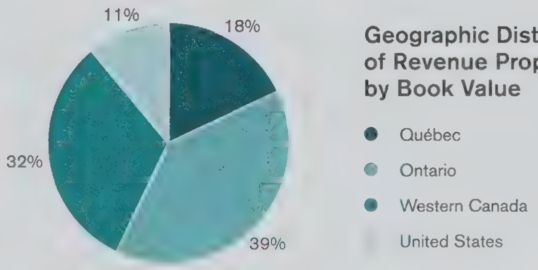
	2001					2000	
	Revenue Properties	Land	Housing and Condominiums	Total	%	Total	%
Québec	$ 160,783	$ 1,500	$ –	$ 162,283	16	$ 165,647	17
Ontario	350,996	9,082	22,359	382,437	37	357,797	37
Western Canada	293,516	64,193	5,648	363,357	35	342,819	35
Total Canada	805,295	74,775	28,007	908,077	88	866,263	89
United States	104,510	3,000	17,353	124,863	12	112,368	11
Total at December 31, 2001	$ 909,805	$ 77,775	$ 45,360	$ 1,032,940	100	$ 978,631	100
Percentage	88%	8%	4%	100%			
Total at December 31, 2000	$ 867,718	$ 76,885	$ 34,028	$ 978,631			
Percentage	89%	8%	3%	100%			

Revenue Properties

The book value of segmented revenue properties was geographically dispersed as follows:

	2001						2000	
	Office	Industrial	Retail	Other	Total	%	Total	%
Québec	$ 54,357	$ 104,731	$ 1,695	$ –	$ 160,783	18	$ 159,113	18
Ontario	276,626	57,232	17,138	–	350,996	39	335,458	39
Western Canada	103,847	100,368	85,126	4,175	293,516	32	277,336	32
Total Canada	434,830	262,331	103,959	4,175	805,295	89	771,907	89
United States	3,627	–	92,664	8,219	104,510	11	95,811	11
Total at December 31, 2001	$ 438,457	$ 262,331	$ 196,623	$ 12,394	$ 909,805	100	$ 867,718	100
Percentage	48%	29%	22%	1%	100%			
Total at December 31, 2000	$ 389,987	$ 260,271	$ 201,192	$ 16,268	$ 867,718			
Percentage	45%	30%	23%	2%	100%			

The increase in the book value of the office portfolio was primarily a result of the completion of the State Street Financial Centre as well as the acquisition of the Roslyn Building and the remaining 50% interest in the Centennial Centre. The book value of the industrial portfolio increased due to capital improvement expenditures, and the book value of the retail and other portfolio declined as a result of the sale of properties. Overall, the proportionate book value of our core portfolio of office and industrial properties has increased to 77% of revenue properties, up from 75% in 2000, 74% in 1999 and 66% in 1998.



Geographic Distribution of Revenue Properties by Book Value

The following table illustrates the Company's net property investment activities before financing:

	Office	Industrial	Retail	Other	Total
Revenue properties under development	$ 16,352	$ 1,181	$ 26	$ –	$ 17,559
Building improvements	5,586	1,826	2,387	2,909	12,708
	21,938	3,007	2,413	2,909	30,267
Acquisitions	26,242	(196)	–	–	26,046
Dispositions	–	–	(10,411)	(6,581)	(16,992)
Deferred leasing costs	4,128	1,864	806	–	6,798
Total	$ 52,308	$ 4,675	$ (7,192)	$ (3,672)	$ 46,119

The Company disposed of four revenue properties and its interest in one residential property. The loss is summarized as follows:

	Proportionate Gross Leasable Area or Number of Units	Net Proceeds	Repayment of Mortgage or Term Debt	Loss on Sale of Revenue Properties
Retail	507,396 sq. ft.	$ 10,411	$ (7,669)	$ (1,307)
Other	95 units	6,581	(4,236)	120
Total		$ 16,992	$ (11,905)	$ (1,187)

Land

The investment in, and location of, the land assets of the Company were as follows:

	2001					2000	
	Land Under Development	Land Held for Development	Land Held for Development (acres)	Total	%	Total	%
Saskatoon	$ 3,713	$ 9,824	1,215	$ 13,537	17	$ 11,887	16
Regina	3,798	3,327	738	7,125	9	7,882	10
Calgary	3,280	10,030	375	13,310	17	11,733	15
Edmonton	7,329	22,892	733	30,221	39	27,663	36
Toronto	9,082	–	–	9,082	12	8,308	11
Other	–	4,500	278	4,500	6	9,412	12
Total December 31, 2001	$ 27,202	$ 50,573	3,339	$ 77,775	100	$ 76,885	100
Percentage	35%	65%		100%		100%	
Total December 31, 2000	$ 15,691	$ 61,194		$ 76,885			
Percentage	20%	80%		100%			

Overall, the investment in land under development and land held for development remained relatively constant in 2001 compared to 2000. The investment in land held for development declined primarily due to the transfer of the Thornhill Woods land in Toronto, Ontario to land under development, and to the writedown of the Lebourgneuf lands. Conversely, the investment in land under development increased by 73.4% as a result of the aforementioned transfer of the Toronto lands. During the year the Company invested $2,200 for land acquisitions in the Springside neighbourhood under development and an additional $3,511 was invested for acquisitions of land held for development. The Meadows subdivision in Edmonton accounted for $2,486 of this latter amount and the remainder was invested in the Wentworth subdivision in Calgary.

Housing and Condominiums

The housing and condominium assets of the Company consisted of:

	2001				2000	
	Construction in Progress	Lots Held for Future Construction	Total	%	Total	%
Saskatoon	$ 3,004	$ 162	$ 3,166	7	$ 3,498	10
Regina	2,482	–	2,482	6	2,764	8
Beaver Creek	17,354	–	17,354	38	13,735	41
Toronto	22,358	–	22,358	49	14,031	41
Total December 31, 2001	$ 45,198	$ 162	$ 45,360	100	$ 34,028	100
Total December 31, 2000	$ 33,296	$ 732	$ 34,028			

The most significant components of the housing and condominium assets are condominiums located in Beaver Creek (Settler's Lodge and Firelight Lodge) and in Toronto (the Company's joint venture interest in the Pantages Tower development). Construction of Settler's Lodge is complete and only three units remain in inventory. Firelight Lodge will be completed in 2002. Almost all of the units for the Pantages Tower development are pre-sold and completion of this project is scheduled to occur in 2003.

Overview of Liabilities and Equity

The Company's balance sheets reflected the following debt and equity structure:

	2001		2000		Change	
	Total	%	Total	%	Amount	%
Debt	$ 558,064	50	$ 550,652	50	$ 7,412	1
Amounts payable and accrued liabilities	51,908	5	55,570	5	(3,662)	(7)
Future income tax liability	46,025	4	37,306	3	8,719	23
Total Liabilities	655,997	59	643,528	58	12,469	2
Shareholders' equity	462,174	41	464,434	42	(2,260)	–
Total	$ 1,118,171	100	$ 1,107,962	100	$ 10,209	1

The assets and liabilities components of the balance sheets remained relatively constant year-over-year, although debt showed an increase of $7,412 or 1.3%. The ratio of debt-to-equity remains relatively low compared to other companies in the real estate industry at 1.21:1.00. The Company reduced its capital base through the repurchase of shares, however, this reduction was offset by net income earned in 2001.

Debt

The outstanding debt of the Company at year end was as follows:

	2001			2000		
	Fixed	Floating	Total	Fixed	Floating	Total
Mortgages payable	$ 390,623	$ 34,956	$ 425,579	$ 384,531	$ 15,830	$ 400,361
Term debt and bank loans	67,621	29,963	97,584	67,591	50,547	118,138
Land mortgages and housing advances	4,870	30,031	34,901	7,281	24,872	32,153
Total	$ 463,114	$ 94,950	$ 558,064	$ 459,403	$ 91,249	$ 550,652
Percentage	83%	17%	100%	83%	17%	100%

The changes in debt levels during 2001 were a result of the following items:

	Mortgages Payable	Term Debt	Bank Loans	Land Mortgages and Housing Advances	Total
Debt as at December 31, 2000	$ 400,361	$ 89,040	$ 29,098	$ 32,153	$ 550,652
Acquisitions	19,449	–	–	–	19,449
New debt placed	63,460	99,477	–	29,358	192,295
Scheduled repayments	(10,672)	(1,101)	(178)	–	(11,951)
Repayment on revenue property dispositions	(9,347)	(2,558)	–	–	(11,905)
Lump sum repayments	(41,074)	(87,147)	(28,752)	(26,933)	(183,906)
Accrued interest	82	(143)	(159)	115	(105)
Foreign exchange adjustment	3,320	–	7	208	3,535
Debt as at December 31, 2001	**$ 425,579**	**$ 97,568**	**$ 16**	**$ 34,901**	**$ 558,064**

The proportion of variable interest rate debt remained unchanged from 2000 at 17% of the Company's total debt. The Company maintains its strategy of fixing as high a proportion of its debt as possible to protect against interest rate volatility.

The significant refinancing activity during the year has lowered the Company's weighted average interest rate and extended the weighted average term to maturity. The Company's weighted average interest rate dropped to 7.0% (2000 – 7.4%). Without the marked-to-market adjustment, the weighted average interest rate dropped to 7.2% (2000 – 8.0%). The Company's weighted average term to maturity extended to 44.3 months (2000 – 43.4 months). The weighted average interest rate is 5.4% for the variable rate debt (2000 – 8.4%) and 7.3% for the fixed rate debt (2000 – 7.2%).

The debt maturity and scheduled principal repayments of mortgages payable, term debt and bank loans in future years are as follows:

	Debt Maturities		Scheduled Principal Repayments on Non-matured Debt	
	Amount	%	Amount	Total
2002	**$ 65,047**	**14**	**$ 14,766**	**$ 79,813**
2003	**68,062**	**15**	**10,651**	**78,713**
2004	**150,816**	**33**	**9,361**	**160,177**
2005	**4,387**	**1**	**8,348**	**12,735**
2006	**37,268**	**8**	**7,666**	**44,934**
2007 and thereafter	**131,404**	**29**	**15,387**	**146,791**
Total mortgages payable, term debt and bank loans	**$ 456,984**	**100**	**$ 66,179**	**$ 523,163**
Land mortgages and housing advances				**34,901**
Total				**$ 558,064**

Shareholders' Equity

The Company's shareholders' equity included $78,318 in contributed surplus. This amount resulted from the repurchase and cancellation of 7,873,063 common shares since 1998. Since our first normal course issuer bid in 1998, the Company has repurchased approximately 33% of the common shares outstanding. The contributed surplus represents the aggregate of the difference between the amount at which any given common share was repurchased and the average book value of existing common shares at the date of repurchase.

Capital Expenditures and Tenant Inducements

Capital expenditures for revenue property building improvements and equipment were $12,708 (2000 – $4,095). These expenditures included both recurring items as well as one-time projects.

	2001			2000		
	Total Investment	Financing	Net Cash	Total Investment	Financing	Net Cash
Recurring	**$ 4,327**	**$ –**	**$ 4,327**	$ 3,845	$ –	$ 3,845
Non-recurring	**8,381**	**1,869**	**6,512**	250	–	250
Total	**$ 12,708**	**$ 1,869**	**$ 10,839**	$ 4,095	$ –	$ 4,095

Non-recurring expenditures included $4,678 for the conversion of theatre space into office space at Capitol Square in Ottawa. The converted space was 100% leased upon completion. Also included in this amount was $2,833 for ski hill lift equipment and the remaining $870 was for a major space reconfiguration of an industrial building in Edmonton.

A number of recurring property improvements, such as roof replacement and parking lot structural repair, were completed during the year. Such expenses are of a recurring nature, as a portion of the portfolio will be undergoing such improvements at any given time. The Company anticipates the cost of these building improvements and repairs to be approximately $3,700 in 2002.

During 2001, $6,798 was expended on inducements to attract or retain tenants. The amount of inducements varies from year to year depending on the maturity and termination of leases, existing vacancies and market requirements. The requisite capital for tenant inducements will be provided by funds from operations.

Liquidity and Capital Structure

The nature of the real estate business is such that the Company requires capital to fund non-discretionary expenditures with respect to existing assets as well as growth through acquisitions and developments.

For the year ended December 31, 2001, the Company generated $48,779 of funds from operations (2000 – $43,517) and an additional $57,586 through the sale of portfolio investments and revenue properties (2000 – $3,033). The Company ended the year with $8,692 in cash and short-term deposits.

The Company intends to meet its short-term liquidity requirements through funds from operations, working capital reserves and operating debt facilities. We anticipate that revenues will continue to provide the cash necessary to fund operating expenses and debt service requirements. Funds from operations, together with cash on hand and operating debt facilities, will be sufficient to fund those recurring capital expenditures that are not recoverable from tenants and tenant inducements.

Capital for acquisitions, developments or redevelopments and share repurchases has been, and is expected to continue to be, obtained from equity or debt financing as well as funds from operations. Capital will also be generated through dispositions as the Company repositions the portfolio in a manner consistent with its stated strategy.

The Company's objective is to maintain a conservative level of debt while ensuring that sufficient capital is available to execute its business plan at all times. The Company had a debt-to-equity ratio of 1.21:1.00 at December 31, 2001. The current interest rates for long-term mortgages still provide the Company with an opportunity to lock in the positive spread between the capitalization rate implicit in property valuations and prevailing interest rates.

At the end of 2001, Dundee Realty had operating debt facilities in the amount of $20,500, of which $4,254 was drawn in support of letters of guarantee at year end. The Company is confident that arrangements will be made to refinance existing debt as it matures.

Risk Management

Real Property Development and Ownership

Real estate development and investment are generally subject to varying degrees of risk, depending on the nature of the property. Such risk includes changes in general economic conditions, local conditions, the attractiveness of properties to potential tenants or purchasers, competition from others with available space and the ability of the owner to economically provide adequate maintenance. The real estate industry is capital intensive and therefore sensitive to interest rates and the availability of capital.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and other charges, must be made regardless of whether or not a property is producing sufficient income to service such cost. If the Company is unable to meet mortgage payments on any property, losses could be sustained as a result of a mortgagee's exercise of its rights of foreclosure or sale.

It is Dundee Realty's intention to maintain as much of its debt as possible as non-recourse to the Company and stagger its debt maturities. We further mitigate our risk by owning a geographically diverse portfolio and maintaining a tenant mix that is not overly exposed to any single economic sector.

Illiquidity

Real estate is relatively illiquid. Such illiquidity will tend to limit the ability of the Company to vary its portfolio promptly in response to changing economic or investment conditions. In recessionary times, it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable, and a holder of real estate during a recessionary period may be faced with ongoing expenditures with a declining prospect of incoming receipts. Without adequate cash reserves, it may be necessary for the holder to dispose of properties below market prices. The volume of transactions decreased in 2001, however, with interest rates at historic lows and limited new supply, we expect reasonable activity in the market.

Construction Risk

The Company may choose not to develop land holdings it may have at any time due to, among other reasons, market conditions or the inability to raise the necessary funding for construction. If the Company continues or proceeds with development of a land holding, properties under construction, or those that are to be constructed, it will be subject to risks. Such risks include lack of funding, variability in construction costs or unforeseeable delays, the failure of tenants to occupy and pay rent in accordance with existing lease agreements and the failure of customers to complete transactions.

Financing

The Company may require additional financing in order to grow and expand its operations. It is possible that such financing will be unavailable or, if available, on unfavourable terms. In addition, upon the expiry of the term of the financing or refinancing of any particular property or operating debt facility, refinancing may not be available in the amounts required, or may be available only on terms less favourable to the Company than existing financing. Future financing may take many forms, including debt or equity financing which could alter the current debt-to-equity ratio or which could be dilutive to the shareholders of the Company.

It is the Company's intent to reduce the interest rate risk associated with refinancing by ensuring that debt maturities are staggered over several years, with limited exposure in any given year. The Company remains very conservatively financed, with a debt-to-equity ratio below that of the industry average.

Environmental Matters

As an owner and manager of real property, the Company is subject to various federal, provincial and state laws relating to environmental matters. Such laws provide that the Company could be liable for the costs of removal and remediation of certain hazardous toxic substances released on or in its properties, or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the ability to sell such real estate or to borrow using such real estate as collateral and, potentially, could also result in claims against the Company. In order to obtain financing for the purchase of a new property through traditional channels, the Company must normally arrange for an environmental audit to be conducted. Although such an audit provides both the Company and its lenders with some assurance, the Company may become subject to liability for undetected pollution or other environmental hazards on its properties against which it cannot insure, or against which it may elect not to insure where premium costs are disproportionate to the Company's perception of relative risk.

The Company has formal policies and procedures to review and monitor environmental exposure. These policies include the requirement to obtain a Phase I Environmental Site Assessment, conducted by an independent and qualified environmental consultant, before acquiring any real property or any interest therein.

Property or Asset Management Agreements

The property or asset management agreements of the Company may be terminated in accordance with the provisions of such agreements, and it is possible that they may not be renewed upon expiry. The potential for the termination of such property or asset management agreements is mitigated by a number of factors. The Company has an interest, as partial owner or mortgagee, in the majority of the properties it manages; therefore, the related agreements are less likely to be terminated.

The Company's management endeavours to negotiate all agreements with long terms and automatic renewal options where possible, and minimize the number of properties that are managed under contract for third parties.

Foreign Exchange Fluctuations

The Company maintains its accounts in Canadian currency. Certain properties of the Company are located in the United States. Accordingly, the Company will be subject to foreign currency fluctuations that may, from time to time, impact its financial position and results. However, the Company mitigates any such risk by matching revenue earned from properties located in the United States against U.S. liabilities in respect of such properties.

Conclusions and Outlook

In 2001, we have built upon our solid financial foundation and improved our excellent portfolio of office and industrial properties. With the additions to and the continued rental uplifts across our portfolio, we look forward to increased cash flow from our revenue properties in 2002. Our goal is to operate our business for the long term – maintain a conservative debt ratio, mitigate risk on a project-by-project basis and create long-term value. We will continue to seek out opportunities that provide desirable returns from the investment of our financial and human capital and that will increase value for our stakeholders.

We value the contributions that our Board of Directors and our employees have made to Dundee Realty. The success we have achieved and the recognition we have earned are the result of their diligence and dedication and we thank each of them for their support. With this solid team behind us, we look forward to facing the challenges of the year ahead.

Management's responsibility for financial statements and auditors' report

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements, the notes thereto and other financial information contained in this Annual Report have been prepared by, and are the responsibility of, the management of Dundee Realty. These financial statements have been prepared in accordance with Canadian GAAP, using management's best estimates and judgments when appropriate.

The Board of Directors is responsible for ensuring that management fulfils its responsibility for financial reporting and internal control. The audit committee, which is comprised of directors, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial responsibilities and to review its consolidated financial statements and the report of the auditors. The audit committee reports its findings to the Board of Directors, which approves the consolidated financial statements.

Arthur Andersen LLP, the independent auditors, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditors have full and unrestricted access to the audit committee, with or without management present.

Michael J. Cooper
President and
Chief Executive Officer

Jeff B. Barnes
Executive Vice-President and
Chief Financial Officer

Toronto, Ontario
March 28, 2002

Auditors' Report

To the Shareholders of Dundee Realty Corporation:

We have audited the consolidated balance sheets of Dundee Realty Corporation as at December 31, 2001 and 2000 and the related consolidated statements of earnings, retained earnings, funds from operations and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations, funds from operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Arthur Andersen LLP

Chartered Accountants
Toronto, Ontario
March 1, 2002

Consolidated financial statements

Consolidated Balance Sheets

As at December 31 (in thousands of dollars)	Note	2001	2000
Assets			
Revenue properties	2	**$ 909,805**	$ 867,718
Land	3	**77,775**	76,885
Housing and condominiums		**45,360**	34,028
Amounts receivable and other assets	4	**76,539**	83,395
Portfolio investments		**–**	32,370
Cash and short-term deposits		**8,692**	13,566
		$ 1,118,171	$ 1,107,962
Liabilities			
Debt	6	**$ 558,064**	$ 550,652
Amounts payable and accrued liabilities	7	**51,908**	55,570
Future income tax liability	14	**46,025**	37,306
		655,997	643,528
Shareholders' equity	8	**462,174**	464,434
		$ 1,118,171	$ 1,107,962

On behalf of the Board:

Michael J. Cooper
Director

Ned Goodman
Chairman

Consolidated Statements of Earnings

For the Years Ended December 31 (in thousands of dollars, except per share amounts)	Note	2001	2000
Revenue			
Revenue properties		$ 159,997	$ 156,145
Land		39,710	33,897
Housing and condominiums		38,536	32,005
Property management		6,326	7,348
Interest and other income		5,217	4,654
		249,786	234,049
Operating expenses			
Revenue properties		83,929	81,440
Land		31,335	26,117
Housing and condominiums		36,413	32,208
Property management		2,677	3,527
		154,354	143,292
Net operating income		95,432	90,757
Other expenses			
Interest	11	35,884	37,784
Depreciation and amortization	12	15,282	14,299
General and administrative		8,352	6,457
		59,518	58,540
Income before the undernoted		35,914	32,217
Gain (loss) on sale and provision for diminution in value of assets	13	6,872	(13,163)
Income before income and large corporations taxes		42,786	19,054
Current income and large corporations taxes	14	2,417	2,999
Future income taxes	14	7,300	794
Net income		$ 33,069	$ 15,261
Net income per share			
Basic	15	$ 1.75	$ 0.74
Diluted	15	$ 1.71	$ 0.73

Consolidated Statements of Retained Earnings

For the Years Ended December 31 (in thousands of dollars)	2001	2000
Retained earnings, beginning of year	$ 27,793	$ 12,532
Net income	33,069	15,261
Retained earnings, end of year	$ 60,862	$ 27,793

Consolidated Statements of Funds from Operations

For the Years Ended December 31 (in thousands of dollars, except per share amounts)	Note	2001	2000
Net income		$ 33,069	$ 15,261
Non-cash items:			
Depreciation and amortization		15,282	14,299
(Gain) loss on sale and provision for diminution in value of assets		(6,872)	13,163
Future income taxes		7,300	794
Funds from operations		$ 48,779	$ 43,517
Funds from operations per share			
Basic	15	$ 2.59	$ 2.11
Diluted	15	$ 2.52	$ 2.08

Consolidated Statements of Cash Flows

For the Years Ended December 31 (in thousands of dollars)	Note	2001	2000
Generated from operating activities			
Funds from operations		$ 48,779	$ 43,517
Revenue properties deferred leasing costs		(6,798)	(6,910)
Development of land inventory		(810)	1,039
Acquisition of land under development		(2,200)	–
Development of housing and condominiums		(6,148)	(7,909)
Land mortgages and housing advances		2,316	2,164
Change in non-cash working capital items		(7,565)	9,300
		27,574	41,201
Generated from (utilized in) investing activities			
Investment in revenue properties	2	(11,798)	(13,196)
Acquisition of revenue properties	2	(6,597)	–
Proceeds from sale of revenue properties		5,087	3,033
Acquisition of land held for development	3	(3,511)	(3,050)
Proceeds from sale of portfolio investment		52,499	–
Acquisition of investments		(6,088)	(822)
		29,592	(14,035)
Utilized in financing activities			
Mortgages		(5,903)	(4,099)
Term debt		11,229	(12,917)
Bank loans		(28,929)	13,294
Net change in common share equity	8	(38,437)	(16,245)
Restricted cash		1,670	(4,348)
		(60,370)	(24,315)
(Decrease) increase in cash and cash equivalents		(3,204)	2,851
Cash and cash equivalents, beginning of year		5,119	2,268
Cash and cash equivalents, end of year		1,915	5,119
Restricted cash	5	6,777	8,447
Cash and short-term deposits		$ 8,692	$ 13,566

Notes to the consolidated financial statements

(All dollar amounts in thousands, except per share amounts)

1. Summary of Significant Accounting Policies

These consolidated financial statements are prepared in accordance with the accounting recommendations of the Canadian Institute of Chartered Accountants ("CICA") and are substantially in accordance with the practices recommended by the Canadian Institute of Public and Private Real Estate Companies ("CIPPREC").

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries, together with the Company's proportionate share of the assets, liabilities, revenues and expenses of joint ventures in which it participates.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Revenue Recognition

Revenue properties – Revenue properties are considered operational at the earlier of the achievement of a predetermined level of occupancy or at the expiry of a reasonable period following substantial completion.

Land – Revenue from the sale of developed sites and land sold to third parties is recognized at the time the agreement of purchase and sale is executed and unconditional, at least 15% of the sale proceeds has been received, and the collectability of the remaining proceeds is reasonably assured.

Housing and condominiums – Revenue is recognized when ownership has been transferred to the purchaser and collectability of the proceeds is assured.

Revenue Properties

Revenue properties are stated at the lower of cost less accumulated depreciation and the net recoverable amount. Revenue properties under development include interest on project-specific and general debt, property taxes, carrying charges and applicable general and administrative expenses incurred in the pre-development and construction periods, and initial leasing costs, less revenue earned prior to the project being declared operational. The net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the ongoing use of the property, combined with its estimated residual value.

Buildings and improvements are depreciated using the sinking fund method. Under this method, an amount, which increases at 5% per annum, is charged to income so as to fully depreciate the buildings and improvements over their estimated useful lives of 30 to 40 years. Leasehold improvements and tenant inducements, other than initial leasing costs, are depreciated on a straight-line basis over the term of the applicable lease. Pavement, ski area infrastructure, equipment and vehicles are depreciated on the declining balance basis over their estimated useful lives at 8% to 30% per annum.

Land, Housing and Condominiums

Land under development and housing and condominiums are stated at the lower of cost and net realizable value. Land held for development is stated at the lower of cost and net recoverable amount.

Land – Land under development includes all related development costs, interest on property-specific and general debt, property taxes and applicable general and administrative expenses incurred during construction, less miscellaneous revenue earned during the construction period. Land held for development includes acquisition costs, pre-development costs, interest on specific debt and property taxes, less miscellaneous revenue earned. Interest on general debt and general and administrative expenses are not capitalized to land held for development. Land held for development is transferred to land under development when a subdivision or phase is commenced.

Housing and condominiums – This consists of housing and condominiums under construction, completed and held for sale and severed lots acquired from third parties held for development. Costs of these inventories include all related development costs, interest on project-specific and general debt, property taxes and applicable general and administrative expenses incurred during construction, less miscellaneous revenue earned during the construction period.

Foreign Currency Translation

The Company's foreign operations are financially self-sustaining. Accordingly, assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the average rate for the period. Translation gains and losses are deferred as a separate component of shareholders' equity until there has been a realized reduction in the underlying investment.

Foreign Currency Transactions

Assets and liabilities to be settled in foreign currencies, which are not held in foreign self-sustaining operations, are translated into Canadian dollars using the year-end rate of exchange. Gains and losses are included in the consolidated statements of earnings.

Deferred Expenses

Deferred expenses may include:

- Debt issue expenses that are amortized over the term of the debt;
- Investigative and pre-development expenditures, which can include an allocation of general and administrative expenses incurred on specific potential projects. These costs are deferred until the project is either abandoned, at which time the costs are written off, or until the project proceeds to the construction stage, at which time the costs are capitalized to the project;
- Direct acquisition costs, which exclude general and administrative costs, are deferred until the acquisition is completed and the costs are capitalized to the acquisition, or the acquisition is abandoned and the costs are written off;
- Recoverable operating expenses, which are amortized over the period during which they are recoverable from tenants; and
- Non-recoverable operating expenses, which are amortized over their expected useful lives.

Other Equipment

Other equipment consists of office premise improvements, furniture, computer equipment and vehicles and are depreciated on the declining balance basis over their estimated useful lives at 20% to 30% per annum.

Goodwill

Goodwill is recorded at cost, less accumulated amortization, and represents the excess of the purchase price over the fair value assigned to the identifiable tangible net assets acquired. Goodwill is amortized on a straight-line basis over 10 years. The Company evaluates the carrying value of goodwill for permanent impairment on an ongoing basis and assesses the recoverability of this amount based on a review of future net operating income on a non-discounted basis.

The CICA issued a new accounting standard for goodwill and other intangible assets, which is effective for fiscal year 2002. Under this new standard, goodwill will no longer be amortized, but will be subject to a revised annual impairment test. The Company will adopt this new standard in fiscal 2002 without restating prior periods. An initial goodwill impairment review is required within six months of adoption. If any impairment is indicated, it will be recognized as a charge to opening retained earnings.

Income taxes

The Company uses the liability method of accounting for future income taxes. Net future income taxes payable represent the cumulative amount of tax applicable to temporary differences between the carrying amount of the Company's assets and liabilities and their values for tax purposes. In addition, the benefit of tax losses available to be carried forward to future years for tax purposes that are more likely than not to be realized are recognized as a reduction of the future income taxes payable. Future income taxes are measured at the tax rates expected to apply in the future as temporary differences reverse and tax losses are utilized. Changes to future income taxes related to a change in tax rates are recognized as income in the period when the tax rate change is substantively enacted.

Note 14 includes additional information on the composition of income tax expense, and future income tax liability.

Consolidated Statements of Funds from Operations

Funds from operations is calculated in conformance with CIPPREC and is considered to be a meaningful and useful measure of real estate operating performance. Funds from operations does not represent cash flow from operations as defined by Canadian GAAP and is not necessarily indicative of cash available to fund cash needs. It should not be considered as an alternative to cash flow as a measure of liquidity.

Funds from operations includes imputed non-cash free rents totalling $342 for the year ended December 31, 2001 (2000 – $476).

Consolidated Statements of Cash Flows

For the purposes of the consolidated statements of cash flows, the Company considers all short-term investments with maturity of three months or less to be cash equivalents, and excludes cash subject to restrictions that prevent its use for current purposes.

Share-Based Compensation Plans

The Company has three share-based compensation plans, which are described in Note 9. No compensation expense is recognized for these plans when stock or stock options are issued to eligible participants. Any consideration paid by option holders on exercise of stock options or purchase of stock is credited to share capital.

The CICA issued a new accounting standard for stock-based compensation and other stock-based payments, which is effective for fiscal 2002. The new standard requires the use of a fair-value-based method to account for certain stock-based compensation arrangements. The type of options granted by the Company under the Share Option Plan are not required under the new standard to be accounted for using a fair-value-based method and, as a result, there will be no impact on the Company's consolidated balance sheets and statements of earnings. The future impact of the new standard on the Share Bonus Plan compensation is not significant.

2. Revenue Properties

	2001	2000
Land	$ 160,441	$ 154,964
Building and building improvements	749,604	690,640
Equipment	8,179	5,069
Deferred leasing costs	26,875	20,142
Revenue properties under development	–	20,774
	945,099	891,589
Accumulated depreciation	(35,294)	(23,871)
Total	$ 909,805	$ 867,718

The Company's investment in revenue properties is as follows:

2001	Total Cost	Financing	Net Cash
Revenue properties under development	$ 19,782	$ 16,600	$ 3,182
Building improvements and equipment	12,066	1,869	10,197
	$ 31,848	$ 18,469	$ 13,379
Adjustment for other non-cash items			(1,581)
Investment in revenue properties			$ 11,798

2000	Total Cost	Financing	Net Cash
Revenue properties under development	$ 12,240	$ 3,149	$ 9,091
Building improvements and equipment	4,095	–	4,095
	$ 16,335	$ 3,149	$ 13,186
Adjustment for other non-cash items			10
Investment in revenue properties			$ 13,196

The Company's acquisition of revenue properties is as follows:

2001	Total Cost	Financing	Net Cash
	$ 26,046	$ 19,449	$ 6,597

3. Land

	2001	2000
Land under development	$ 27,202	$ 15,691
Land held for development	50,573	61,194
Total	$ 77,775	$ 76,885

Acquisitions of land held for development during the year have a total cost of $3,511 with no financing (2000 – $6,800 total cost and financing of $3,750).

4. Amounts Receivable and Other Assets

	2001	2000
Amounts receivable and deposits	$ 42,424	$ 43,276
Prepaid and deferred expenses	14,910	10,584
Loans receivable	7,237	7,981
Other equipment	6,279	5,471
Goodwill	4,851	14,551
Other investments	838	1,532
Total	$ 76,539	$ 83,395

The book value of the loans receivable and other investments approximates their estimated fair value at December 31, 2001 and 2000. Other equipment is net of accumulated depreciation of $5,064 (2000 – $3,557). Goodwill is net of accumulated amortization of $3,640 (2000 – $5,794). Goodwill totalling $7,891, representing the book value of certain management contracts, was allocated to the cost of sale of these contracts in 2001.

5. Restricted Cash

Restricted cash represents cash securing letters of credit provided to various government agencies to support development activity, customer deposits on condominium sales that close after year end and cash held as security for mortgages.

6. Debt

	2001	2000
Mortgages	$ 425,579	$ 400,361
Term debt	97,568	89,040
Bank loans	16	29,098
Land mortgages	19,170	15,795
Housing advances	15,731	16,358
Total	$ 558,064	$ 550,652

The weighted average interest rates for the fixed and floating components of the debt are as follows:

	Weighted Average Interest Rates				
	2001	2000	Maturity Dates	2001	2000
Fixed rate					
Mortgages	**7.29%**	7.25%	2002 to 2012	**$ 390,623**	$ 384,531
Term debt	**7.74%**	7.16%	2002 to 2006	**67,605**	67,404
Bank loan	**7.50%**	7.50%	2002	**16**	187
Land mortgages	**0.00%**	2.02%	2011 to 2015	**3,750**	5,270
Housing advances	**6.50%**	6.50%	2002 to 2003	**1,120**	2,011
Total fixed rate	**7.30%**	7.17%		**$ 463,114**	$ 459,403
Variable rate					
Mortgages	**6.25%**	9.02%	2002 to 2004	**$ 34,956**	$ 15,830
Term debt	**5.02%**	8.62%	2004	**29,963**	21,636
Bank loan	**–**	7.69%		**–**	28,911
Land mortgages	**4.81%**	8.34%	2002	**15,420**	10,525
Housing advances	**5.00%**	8.89%	2002 to 2003	**14,611**	14,347
Total variable rate	**5.44%**	8.40%		**$ 94,950**	$ 91,249
Total debt	**6.98%**	7.38%		**$ 558,064**	$ 550,652

The scheduled principal repayments and debt maturities are as follows:

	Mortgages	Term Debt	Bank Loan	Land Mortgages	Housing Advances	Total for Year
2002	$ 77,479	$ 2,318	$ 16	$ 15,420	$ 8,640	$ 103,873
2003	77,444	1,269	–	–	7,091	85,804
2004	66,754	93,423	–	–	–	160,177
2005	12,382	353	–	–	–	12,735
2006	44,729	205	–	–	–	44,934
2007 and thereafter	146,791	–	–	3,750	–	150,541
Total	$ 425,579	$ 97,568	$ 16	$ 19,170	$ 15,731	$ 558,064

Mortgages and term debt are secured by charges on specific revenue properties. Bank loans are secured by general security agreements and mortgages on specific revenue properties. Land mortgages and housing advances are secured by charges on specific land and housing under development or land held for development.

The estimated fair value of the debt is as follows:

	2001	2000
Mortgages	**$ 435,997**	$ 387,442
Term debt	**100,250**	89,080
Bank loans	**16**	29,098
Land mortgages	**16,599**	13,283
Housing advances	**15,737**	16,203
Total	**$ 568,599**	$ 535,106

7. Amounts Payable and Accrued Liabilities

	2001	2000
Trade payables	**$ 12,529**	$ 13,560
Accrued liabilities and other payables	**14,156**	18,282
Deposits	**12,786**	12,041
Cost to complete	**9,398**	6,574
Deferred revenue	**3,039**	5,113
Total	**$ 51,908**	$ 55,570

8. Shareholders' Equity

	2001	2000
Share capital	$ 321,257	$ 384,154
Directors' and officers' share purchase loans	(4,220)	(4,220)
Contributed surplus	78,318	53,134
Retained earnings	60,862	27,793
Foreign currency translation adjustment	5,957	3,573
Total	$ 462,174	$ 464,434

Authorized Share Capital

The Company's authorized share capital consists of an unlimited number of common shares and preference shares issuable in series. The preference shares will have such designations, rights, privileges, restrictions and conditions as the directors of the Company may determine.

Share Consolidation

On June 18, 2001, the common shares were consolidated on an 8 for 1 basis. Accordingly, all share information has been restated to reflect this consolidation.

Share Purchase Loans

Directors' and officers' share purchase loans, of which $3,220 are non-interest bearing, have been deducted from shareholders' equity. The loans are secured by 286,500 common shares of the Company with a quoted value at December 31, 2001 of $13.50 (2000 – 275,000 shares with a quoted value of $12.16). The loans are repayable only if the directors or officers elect to sell their common shares, or if they leave the Company.

Share Repurchases

During 2001, the Company completed the purchase of all the common shares allowed under its third normal course issuer bid, which commenced on September 11, 2000. Pursuant to this bid, a total of 1,337,750 common shares were acquired at an average purchase price of $12.55 per share.

The Company initiated a substantial issuer bid to repurchase 1,600,000 of its common shares on a Dutch Auction basis at a price between $13.50 and $15.00 per share, with the bid closing on October 9, 2001. The Company completed the bid and purchased 1,601,629 common shares at a price of $13.50 per share.

On November 8, 2001, the Company initiated its fourth normal course issuer bid to purchase for cancellation up to a maximum of 995,347 of its common shares (representing approximately 10% of the Company's public float) over the following 12 months through the facilities of the Toronto Stock Exchange. The normal course issuer bid will remain in effect until the earlier of either November 12, 2002 or until the Company has purchased the maximum number of shares permitted under the bid. During 2001, the Company acquired 323,370 shares at an average price of $13.37 per share as part of this bid.

The difference between the cost of shares purchased under an issuer bid and the stated capital per share at the time of the purchase is recorded as contributed surplus.

The capital structure of the Company is as follows:

	Common Shares					
	Shares	Amount	Associated Issue Costs	Contributed Surplus	Net Cash Inflow (Outflow)	Average Price
As at December 31, 1999	21,752,413	$ 429,420	$ (8,472)	$ 33,309	$ –	$ –
Loan settlement for shares	(25,000)	(555)	–	282	(273)	10.88
Common shares acquired and cancelled under normal course issuer bids	(1,660,737)	(36,052)	(187)	19,543	(16,696)	9.92
Non-cash adjustment					724	
As at December 31, 2000	20,066,676	392,813	(8,659)	53,134	$ (16,245)	–
Common shares acquired and cancelled under normal course issuer bids	**(1,098,658)**	**(24,935)**	**(102)**	**10,216**	**(14,821)**	**13.40**
Common shares acquired and cancelled under substantial issuer bid on October 9, 2001	**(1,601,629)**	**(36,159)**	**(275)**	**14,537**	**(21,897)**	**13.50**
Options exercised by issuance of shares	**11,150**	**98**	**–**	**–**	**98**	**8.80**
Options exercised for cash compensation	**–**	**–**	**–**	**(42)**	**(42)**	**11.20**
Cancellation and issuance of employees' and directors' loans	**(62,500)**	**(1,473)**	**–**	**473**	**(1,000)**	**13.20**
Share consolidation costs	**–**	**–**	**(51)**	**–**	**(51)**	**–**
Non-cash adjustment	**–**	**–**	**–**	**–**	**(724)**	**–**
As at December 31, 2001	**17,315,039**	**330,344**	**(9,087)**	**78,318**	**$ (38,437)**	**–**
Common shares acquired and cancelled under normal course issuer bid from January 1 to March 1, 2002	**(115,600)**	**(2,730)**	**(1)**	**760**	**(1,971)**	**17.04**
Options exercised to acquire shares	**2,167**	**24**	**–**	**–**	**24**	**11.20**
As at March 1, 2002	**17,201,606**	**$ 327,638**	**$ (9,088)**	**$ 79,078**	**$ (1,947)**	

9. Share-based Compensation Plans

The Company has three share-based compensation plans:

- A Share Option Plan under which 1,968,750 common shares are reserved for issue;
- A Share Purchase Plan under which 93,750 common shares are reserved for issue; and
- A Share Bonus Plan under which 62,500 common shares are reserved for issue.

Under its share compensation arrangements, within a one-year period, the Company may not issue to insiders common shares exceeding 10% of the outstanding issue, and may not issue to any one insider of the Company and the associates of such insider common shares exceeding 5% of the outstanding issue.

Share Option Plan

Subject to the requirements of the Share Option Plan, the directors of the Company have the authority to select those eligible participants to whom options will be granted, the number of options to be granted and the price at which common shares may be purchased. The exercise price for purchasing common shares cannot be less than the closing price of the common shares on the last trading day immediately preceding the date of the grant of the option. Each option, unless sooner terminated pursuant to the provisions of the Share Option Plan, will expire 10 years from the date the option was granted. Each option becomes exercisable, as to 33⅓% of the common shares subject to such grant, on a cumulative basis at the end of each of the first, second and third year following the date of the grant of the option.

If a take-over bid (within the meaning of the Securities Act (Ontario)) is made for the common shares, then the directors of the Company may permit all options outstanding to become immediately exercisable in order to permit common shares issuable under such options to be tendered to such bid.

The following table sets out the particulars of the share options outstanding:

	2001	2000
Outstanding, beginning of year	1,527,099	1,555,199
Issued during the year:		
Exercise price of $9.36	–	34,375
Exercise price of $11.84	272,500	–
Exercise price of $12.00	330,000	–
Exercised during the year:		
Exercise price of $8.80 by issuance of shares	(11,150)	–
Exercise price of $11.20 for cash compensation	(16,157)	–
Cancelled during the year:		
Exercise price of $11.20	(11,460)	(24,975)
Exercise price of $11.84	(17,500)	–
Exercise price of $24.00	(779,876)	(37,500)
Outstanding, end of year	1,293,456	1,527,099

Share options outstanding at the end of the year have exercise prices and expiry dates as follows:

		2001		2000	
Exercise Price	Expiry Date	No. of Options Outstanding	No. of Options Exercisable	No. of Options Outstanding	No. of Options Exercisable
$ 8.80	October 23, 2006	260,724	260,724	271,875	271,875
9.36	August 24, 2010	34,375	11,458	34,375	–
11.20	September 14, 2009	356,358	237,572	383,975	127,992
11.84	January 23, 2011	255,000	–	–	–
12.00	November 7, 2011	330,000	–	–	–
14.80	December 3, 2006	15,625	15,625	15,625	15,625
18.40	February 5, 2007	28,125	28,125	28,125	28,125
24.00	December 8, 2007	13,249	13,249	224,375	224,375
24.00	March 5, 2008	–	–	115,312	76,875
24.00	March 18, 2008	–	–	356,250	237,500
24.00	September 29, 2008	–	–	75,312	50,208
24.00	November 19, 2008	–	–	21,875	14,583
Outstanding, end of year		1,293,456	566,753	1,527,099	1,047,158
Weighted average exercise price			$ 10.81		$ 18.20

Share Purchase Plan

The directors of the Company have the authority to select those directors, officers and employees who may participate in the Share Purchase Plan. The Company will match the participant's contribution, which cannot exceed 10% of the participant's basic annual remuneration on a quarterly basis, and each participant will then be issued common shares having a value equal to the aggregate amount contributed to the Share Purchase Plan by the participant and the Company. The purchase price per share will be the weighted average price of the common shares for the five trading days immediately preceding the issue of the common shares. Such common shares will be delivered to the participant 12 months following their date of issue.

To date, no common shares have been issued pursuant to the Share Purchase Plan.

Share Bonus Plan

The Share Bonus Plan permits the directors of the Company to issue common shares as a discretionary bonus to employees and members of the Company's management and designated affiliates. To date, no common shares have been issued pursuant to this plan; however, subsequent to year end, 58,000 shares were committed. These shares will be issued over four years commencing on January 31, 2003, and the issuance will be recorded as an expense, earned as, based on the market values on these dates.

10. Joint Ventures and Co-ownerships

The Company participates in incorporated and unincorporated joint ventures, partnerships and co-ownerships ("the joint ventures") with other parties and accounts for its interests using the proportionate consolidation method.

The following amounts represent the total assets and liabilities of the joint ventures in which the Company participates and its proportionate share of the assets, liabilities, revenues, expenses and cash flows therein:

	Total		Proportionate Share	
	2001	2000	2001	2000
Assets	$ 621,645	$ 579,379	$ 216,333	$ 195,289
Liabilities	272,368	235,506	86,762	77,539

	Proportionate Share	
	2001	2000
Revenues	$ 33,094	$ 29,773
Expenses	24,004	20,088
	$ 9,090	$ 9,685
Cash flow generated from (utilized in):		
Operating activities	$ (9,579)	$ 4,470
Financing activities	10,749	12,061
Investing activities	(2,261)	(16,759)
(Decrease) in cash and cash equivalents	$ (1,091)	$ (228)

The Company is contingently liable for the obligations of the other owners of the unincorporated joint ventures in the aggregate amount of $120,167 (2000 – $101,091). In each case, however, the co-owner's share of assets is available to satisfy these obligations.

11. Interest

Interest incurred, capitalized and charged to earnings is recorded as follows:

	2001	2000
Interest expense incurred, at stated rate of debt	$ 41,333	$ 43,788
Amortization of deferred financing costs	659	295
Marked-to-market adjustment to rate	(1,054)	(2,887)
Interest capitalized	(5,054)	(3,412)
Interest expense	$ 35,884	$ 37,784

Certain debt assumed on acquisitions completed in prior years has been adjusted to fair value using the market interest rate at the time of the acquisition ("marked-to-market"). This marked-to-market adjustment is amortized to interest expense and principal repayments over the remaining life of the debt.

Interest capitalized includes interest on general and specific debt on revenue properties under development and interest capitalized on general and specific debt to land, housing and condominiums under development. Amounts capitalized to land, housing and condominiums flow through the cost of sales when the projects or units are sold.

Cash interest paid in the year is $41,438 (2000 – $44,031).

12. Depreciation and Amortization

	2001	2000
Depreciation of revenue properties	$ 7,514	$ 7,291
Depreciation of revenue properties deferred leasing costs	4,411	3,096
Depreciation of other equipment	1,548	1,916
Amortization of goodwill	1,809	1,996
Total	$ 15,282	$ 14,299

13. Gain (Loss) on Sale and Provision for Diminution in Value of Assets

	2001	2000
Loss on sale of revenue properties	$ (1,187)	$ (373)
Provision for diminution in value of revenue properties	–	(12,790)
Gain on sale of portfolio investment	14,084	–
Provision for diminution in value of other investment	(991)	–
Provision for diminution in value of land held for development	(5,034)	–
Total	$ 6,872	$ (13,163)

14. Income and Large Corporations Taxes

	2001	2000
Income tax provision based on Canadian statutory tax rate of 42.0% (2000 – 43.8%)	$ 17,970	$ 8,339
Increase (decrease) in provision resulting from:		
Benefit from decrease in expected future income tax rates	(5,864)	(8,139)
Non-taxable portion of capital (gain) loss	(3,137)	75
Benefit from previously unrecognized U.S. tax losses	(2,611)	–
Large corporations and minimum corporate taxes	2,417	2,627
Non-deductible amortization of goodwill	760	874
Other items	182	17
Total income tax provision	$ 9,717	$ 3,793

The Company has accumulated tax losses that are available to offset future taxable income. For Canadian income tax purposes, the Company and its subsidiaries have non-capital tax loss carryforwards of $37,700 (2000 – $48,965), which expire by 2008. For U.S. income tax purposes, the Company and its subsidiaries have net operating losses of $4,600 (2000 – $6,695), which expire by 2021. Prior to 2001, the benefit of these U.S. tax losses had not been recognized in the consolidated financial statements. Cash paid for income and large corporations taxes in the year is $1,705 (2000 – $2,751).

Future income tax liabilities consist of the following:

	2001	2000
Future income tax liabilities related to revenue properties	$ (61,400)	$ (53,700)
Future income tax assets related to tax loss carryforwards	14,900	19,000
Other (net)	475	(2,606)
Total future income tax liability	$ (46,025)	$ (37,306)

15. Earnings per Share

The calculation of net income per share and funds from operations per share using the treasury stock method is explained in the following table:

	2001			2000		
	Income (Numerator)	Weighted Average Number of Shares (Denominator)	Per Share Amount	Income (Numerator)	Weighted Average Number of Shares (Denominator)	Per Share Amount
Basic net income per share	$ 33,069	18,864,666	$ 1.75	$ 15,261	20,642,116	$ 0.74
Add non-cash items	15,710			28,256		
Basic funds from operations per share	48,779	18,864,666	2.59	43,517	20,642,116	2.11
Effect of dilutive securities:						
Shares securing employees' and directors' share loans		279,756			274,918	
Weighted average number of options with an exercise price below the average share price of $13.35 (2000 – $9.55)		194,783			25,793	
Diluted net income per share	33,069	19,339,205	1.71	15,261	20,942,827	0.73
Add non-cash items	15,710			28,256		
Diluted funds from operations per share	$ 48,779	19,339,205	$ 2.52	$ 43,517	20,942,827	$ 2.08

Options to purchase 814,286 common shares (2000 – 1,496,475) were excluded from the computation of diluted net income per share because the exercise price of the options was greater than the average market price of the common shares.

16. Segmented Information

The Company's reportable operating segments are composed of property management, land and housing operations and three different types of revenue properties.

The Company's revenue properties comprise its primary business unit and have been segmented into office, industrial and retail components because of the marketing, leasing and operating strategies unique to each.

The business unit that manages the land and housing operations is independent of the revenue property operations.

Management fees and related expenses for all properties managed on behalf of third parties are combined with acquisition and disposition transaction fees and related expenses, and are reported under the property management segment.

The accounting policies of the segments are as described in the summary of significant accounting policies. The Company does not allocate interest expense to these segments, since leverage is viewed as a corporate function. The decision as to where to incur the debt is largely based on minimizing the cost of debt and is not specifically related to the segments. Similarly, income taxes, general and administrative expenses, and corporate depreciation and amortization are not allocated to the operating segments. All inter-segment sales have been eliminated from the consolidated financial statements and the following tables.

A. By Activity

2001	Revenue Properties: Office	Industrial	Retail	Other	Land	Housing and Condominiums	Property Management	Total
Operations								
Revenue	$ 77,241	$ 38,007	$ 34,015	$ 10,734	$ 39,710	$ 38,536	$ 6,326	$ 244,569
Operating expenses	(41,768)	(14,932)	(16,996)	(10,233)	(31,335)	(36,413)	(2,677)	(154,354)
Depreciation and amortization	(5,592)	(3,067)	(2,218)	(1,048)	–	–	–	(11,925)
Segment income	$ 29,881	$ 20,008	$ 14,801	$ (547)	$ 8,375	$ 2,123	$ 3,649	$ 78,290
Segment assets	$ 438,457	$ 262,330	$ 196,623	$ 12,395	$ 77,775	$ 45,360	$ –	$1,032,940
Capital expenditures								
Investment in revenue properties	$ (5,756)	$ (3,007)	$ (1,995)	$ (1,040)	$ –	$ –	$ –	$ (11,798)
Acquisition of revenue properties	(6,793)	196	–	–	–	–	–	(6,597)
Deferred leasing costs	(4,128)	(1,864)	(806)	–	–	–	–	(6,798)
Development of land and housing	–	–	–	–	(810)	(6,148)	–	(6,958)
Acquisition of land under development	–	–	–	–	(2,200)	–	–	(2,200)
Acquisition of land held for development	–	–	–	–	(3,511)	–	–	(3,511)
Total capital expenditures	$ (16,677)	$ (4,675)	$ (2,801)	$ (1,040)	$ (6,521)	$ (6,148)	$ –	$ (37,862)

2000	Revenue Properties: Office	Industrial	Retail	Other	Land	Housing and Condominiums	Property Management	Total
Operations								
Revenue	$ 70,028	$ 37,636	$ 36,311	$ 12,170	$ 33,897	$ 32,005	$ 7,348	$ 229,395
Operating expenses	(38,138)	(14,548)	(18,237)	(10,517)	(26,117)	(32,208)	(3,527)	(143,292)
Depreciation and amortization	(4,731)	(2,568)	(2,187)	(901)	–	–	–	(10,387)
Segment income	$ 27,159	$ 20,520	$ 15,887	$ 752	$ 7,780	$ (203)	$ 3,821	$ 75,716
Segment assets	$ 389,987	$ 260,271	$ 201,192	$ 16,268	$ 76,885	$ 34,028	$ –	$ 978,631
Capital expenditures								
Investment in revenue properties	$ (9,739)	$ (1,785)	$ (954)	$ (718)	$ –	$ –	$ –	$ (13,196)
Deferred leasing costs	(4,413)	(1,828)	(669)	–	–	–	–	(6,910)
Development of land and housing	–	–	–	–	1,039	(7,909)	–	(6,870)
Acquisition of land held for development	–	–	–	–	(3,050)	–	–	(3,050)
Total capital expenditures	$ (14,152)	$ (3,613)	$ (1,623)	$ (718)	$ (2,011)	$ (7,909)	$ –	$ (30,026)

B. By Country

2001	Canada	U.S.	Total
Operations			
Revenue	$ 199,344	$ 45,225	$ 244,569
Operating expenses	(119,512)	(34,842)	(154,354)
Depreciation and amortization	(10,078)	(1,847)	(11,925)
Segment income	$ 69,754	$ 8,536	$ 78,290
Segment assets	$ 908,077	$ 124,863	$ 1,032,940
Capital expenditures			
Investment in revenue properties	$ (9,068)	$ (2,730)	$ (11,798)
Acquisition of revenue properties	(6,597)	–	(6,597)
Deferred leasing costs	(6,720)	(78)	(6,798)
Development of land and housing	(3,838)	(3,120)	(6,958)
Acquisition of land under development	(2,200)	–	(2,200)
Acquisition of land held for development	(3,511)	–	(3,511)
Total capital expenditures	$ (31,934)	$ (5,928)	$ (37,862)

2000	Canada	U.S.	Total
Operations			
Revenue	$ 202,743	$ 26,652	$ 229,395
Operating expenses	(125,975)	(17,317)	(143,292)
Depreciation and amortization	(8,897)	(1,490)	(10,387)
Segment income	$ 67,871	$ 7,845	$ 75,716
Segment assets	$ 866,263	$ 112,368	$ 978,631
Capital expenditures			
Investment in revenue properties	$ (11,962)	$ (1,234)	$ (13,196)
Deferred leasing costs	(6,783)	(127)	(6,910)
Development of land and housing	2,004	(8,874)	(6,870)
Acquisition of land held for development	(3,050)	–	(3,050)
Total capital expenditures	$ (19,791)	$ (10,235)	$ (30,026)

Reconciliations of segmented operating results and assets with consolidated net income and assets are as follows:

	2001	2000
Revenue		
From operating segments	$ 244,569	$ 229,395
Interest and other income	5,217	4,654
Total revenue	$ 249,786	$ 234,049

	2001	2000
Net income		
From operating segments	$ 78,290	$ 75,716
Interest and other income	5,217	4,654
Interest	(35,884)	(37,784)
Corporate depreciation and amortization	(3,357)	(3,912)
General and administrative	(8,352)	(6,457)
Gain (loss) on sale and provision for diminution in value of assets	6,872	(13,163)
Income and large corporations taxes	(9,717)	(3,793)
Net income	$ 33,069	$ 15,261

	2001	2000
Assets		
Segment assets	$ 1,032,940	$ 978,631
Amounts receivable and other assets	76,539	83,395
Portfolio investments	–	32,370
Cash and short-term deposits	8,692	13,566
Total assets	$ 1,118,171	$ 1,107,962

17. Financial Instruments and Risk Management

For certain of the Company's financial instruments, including cash and short-term deposits, amounts receivable, amounts payable, accrued liabilities, land mortgages and housing advances, and bank indebtedness, carrying amounts approximate fair values due to their immediate or short-term maturity.

The fair value of debt is determined by discounting the future contractual cash flows under current financing arrangements at discount rates that represent borrowing rates presently available to the Company for loans with similar terms and maturities. Specific fair values are disclosed in the related notes.

The Company has exposure to interest rate risk primarily as a result of its variable rate debt. Variable rate debt amounts to 17% (2000 – 17%) of the Company's total debt. In order to manage exposure to interest rate risk, the Company endeavours to maintain an appropriate mix of fixed and floating rate debt, stagger maturities of fixed rate debt and match the nature of the debt with the cash flow characteristics of the underlying asset.

The Company is exposed to foreign exchange risk as it relates to its self-sustaining U.S. operations due to fluctuations in the exchange rate between the Canadian and U.S. dollars. Changes in the exchange rate may result in a reduction or an increase in net income. The impact of foreign exchange fluctuations is deferred as a separate component of shareholders' equity until an investment has been liquidated. The Company mitigates this risk by matching foreign denominated debt with foreign assets.

The Company's assets are primarily office, industrial and retail revenue properties, land, housing and condominiums. Credit risk arises from the possibility that tenants in revenue properties and purchasers of land, housing or condominiums may not fulfill their lease or contractual obligations. Further risks arise in the event that borrowers default on the repayment of their loans to the Company. The Company mitigates its credit risks by attracting tenants and land buyers of sound financial standing, diversifying its mix of tenants and ensuring that adequate security has been provided in support of loans.

18. Related-party Transactions

From time to time the Company enters into transactions with related parties. All transactions are conducted under normal commercial terms and are not significant to these financial statements.

19. Commitments and Contingencies

The Company and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the Company.

The Company's estimated cost to complete condominiums and revenue properties under development is $20,500 (2000 – $21,000). The Company's commitments under land purchase agreements are $8,175 (2000 – $9,103).

The Company's annual commitments under capital and operating leases are as follows:

	Operating Lease Payments	Capital Lease Payments
2002	$ **1,464**	$ **935**
2003	**1,374**	**529**
2004	**1,221**	**425**
2005	**1,135**	**399**
2006	**1,023**	**210**
2007 and thereafter	**5,440**	**–**
Total	$ **11,657**	$ **2,498**

20. Comparative Figures

The 2000 comparative figures have been reclassified to conform to the current year's presentation.

Directors and officers

DIRECTORS

Dr. Günther Bautz, Director
Kronberg, Germany
Patent and Trademark Counsel, Braun GmbH

Detlef Bierbaum, Vice-Chairman
Köln, Germany
Partner, Bankhaus Sal. Oppenheim jr. & Cie. KGaA

Donald K. Charter, Director
Toronto, Ontario
Executive Vice-President, Dundee Bancorp Inc. and
Chairman and Chief Executive Officer,
Dundee Securities Corporation

David J. Contis, Director
Santa Monica, California
Executive Vice-President and Chief Operating Officer,
The Macerich Company

Michael J. Cooper, Director
Toronto, Ontario
President and Chief Executive Officer,
Dundee Realty Corporation

Peter A. Crossgrove, Director
Toronto, Ontario
Chairman, Masonite International Corp.

Michael Freund, Director
Toronto, Ontario
Partner
Connor Clark & Lunn Financial Services Group

Robert Goodall, Director
Toronto, Ontario
President, Canadian Mortgage Capital Corporation

David J. Goodman, Director
Toronto, Ontario
President and Chief Executive Officer,
Dynamic Mutual Funds Ltd.

Ned Goodman, Chairman
Toronto, Ontario
President and Chief Executive Officer,
Dundee Bancorp Inc.

Gert Silber-Bonz, Director
Michelstadt, Germany
Business Consultant

OFFICERS

Jeff B. Barnes
Executive Vice-President and Chief Financial Officer

Mario Barrafato
Vice-President, Taxation

Detlef Bierbaum
Vice-Chairman

Don Chmara
Senior Vice-President and Controller

Michael J. Cooper
President and Chief Executive Officer

Jane Gavan
Executive Vice-President, General Counsel and Secretary

Ned Goodman
Chairman

Adarsh Khosla
Senior Vice-President, Finance

Michael Knowlton
Executive Vice-President and Chief Operating Officer

Bruce Traversy
Vice-President, Investments and Corporate Analysis

Corporate directory and information

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Fax: (403) 212-7179

Dundee Realty Management Corporation
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Fax: (780) 429-3914

Dundee Realty Management Corporation
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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Listing Symbol – D

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www.dundeedevelopments.com
www.homesbydundee.com

ANNUAL GENERAL MEETING OF SHAREHOLDERS

Thursday, May 9, 2002
4:00 pm (EDT)
Design Exchange
Toronto-Dominion Centre
234 Bay Street
Toronto, Ontario M5X 1B2

DESIGN: OVE DESIGN & COMMUNICATIONS LTD. PHOTOGRAPHY: DAVID GRAHAM WHITE PRINTING: SOMERSET GRAPHICS CO. LTD.

Commercial revenue properties

(as at December 31, 2001)

Property	Owned Share of Total GLA in Square Feet	No. of Buildings
OFFICE		
Suburban East Island	182,809	2
Suburban Central	179,329	3
Suburban South Shore	155,620	5
Suburban West Island	234,644	8
Total Montréal Office	**752,402**	**18**
Downtown	357,175	2
Suburban	322,743	4
Total Ottawa Office	**679,918**	**6**
Downtown	348,708	3
Midtown	470,298	4
Suburban North	536,518	6
Suburban West	295,798	12
Total Toronto Office	**1,651,322**	**25**
Total Ontario Office	**2,331,240**	**31**
Saskatoon	101,895	3
Edmonton	172,826	1
Calgary	204,679	2
Vancouver	212,427	1
Total Western Canada Office	**691,827**	**7**
Total United States Office	**33,285**	**1**
Total Office	**3,808,754**	**57**
INDUSTRIAL		
Boucherville	71,592	2
Brossard	141,555	4
Dorval	574,756	13
Laval	202,063	2
Longueuil	256,393	7
Montréal	226,755	2
Pointe-Claire	55,333	1
Saint Laurent	1,290,264	17
Total Montréal Industrial	**2,818,711**	**48**
Brampton	386,404	7
Burlington	81,776	1
Markham	94,588	3
Mississauga	413,652	10
Toronto	212,110	1
Vaughan	148,031	2
Total Toronto Industrial	**1,336,561**	**24**
Northwest	684,991	9
Southeast	181,396	4
Total Edmonton Industrial	**866,387**	**13**
Central	263,115	10
Foothills	515,001	9
Northeast	328,671	8
Total Calgary Industrial	**1,106,787**	**27**
Total Industrial	**6,128,446**	**112**
RETAIL		
Ontario	487,566	4
Western Canada	537,292	5
United States	871,572	2
Total Retail	**1,896,430**	**11**
Total Revenue Property Portfolio	**11,833,630**	**180**


Follow 01 through
Thinking
Dundee Realty Corporation
"There is often a bias towards getting bigger even if it's not profitable. We try to focus on becoming more valuable."
INTERVIEW WITH MANAGEMENT, PROFIT MAGAZINE, MAY 2001

By all measures, Dundee Realty had a record-breaking year in 2001. Funds from operations per share grew by an impressive 21% and net income by 117%. While many of the achievements we highlight in this report occurred in 2001, they serve to set the stage for continued gains in the years to come.

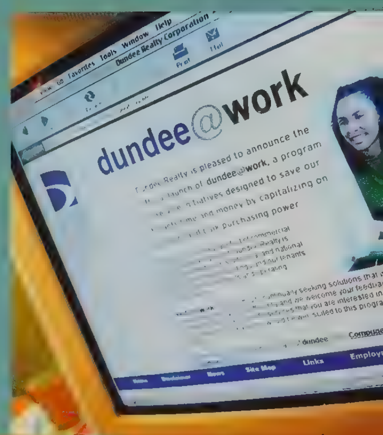
This continuous thread of strategy and achievement provides the theme for our 2001 report – as we look at where we've been and where we are now. We want you to appreciate, as we do, that the easiest way to keep a vision alive is to consistently do what you say you're going to do. **It's all about follow-through.**


01

> “Anything that we can do to help tenants operate their business efficiently while reducing the time that they spend thinking about real estate will build customer loyalty.”

MICHAEL KNOWLTON, MEMO TO STAFF, DECEMBER 17, 1999

With the roll-out of our tenant response system, over 85% of all inquiries are now received through the dundeeplus web site, allowing us to respond to tenants' needs more quickly and efficiently.



At sign-on and beyond, Dundee Realty follows through in meeting its tenants' needs. Dundee Realty's development of an amenity-rich, campus-style office complex at 30 Adelaide Street East in Toronto offered International Financial Data Services the quality space it was looking for, as well as an ownership interest in the property. Renamed the State Street Financial Centre, the property also provided invaluable "street presence" to another primary tenant's brand. State Street Financial Centre represents Dundee Realty's operational ideal – high-quality, affordable business premises in the most desirable markets.

Finding a win-win solution often requires the ability to identify an opportunity and improvise. In 2001, Canada Post needed to quickly find new space in Montréal. While we had existing space in the Place du Commerce complex, the tenant's unique technical requirements made it more feasible to build a new facility on the adjacent vacant land. Canada Post got exactly the space it needed, when it needed it. Dundee Realty made use of non-revenue generating land, while adding value to the complex.

> “Dundee Realty has all the attributes that well-known value investors desire: growing cash flows on a per-share basis; low cash flow multiple; low market-value to book-equity ratio; conservatively financed in an industry with long-term prospects.”
>
> 1998 ANNUAL REPORT

Toronto's 2 St. Clair Avenue was brought up to date in 2001 with a brighter, more welcoming lobby.

Dundee Realty follows through on its commitment to provide value today, and over the long term. Real estate, with its predictable income from long-term rental contracts, provides the stability investors want. Dundee Realty adds to their confidence with above-average growth in net income and funds from operations per share. Notwithstanding this dramatic growth, our share price remains relatively low.

The sale of our units in Residential Equities REIT in 2001 resulted in a book value gain of 37%. It also enabled us to pay down our debt, repurchase stock and add to our property portfolio, effectively generating a future return of 13%.

Each year we evaluate our properties to determine where we can add value through capital improvements. Ongoing upgrades ensure that tenants continue to have pride in their premises, while shareholders benefit from the increase in value of the portfolio. Plans are under way for capital improvements to several of our properties in 2002.

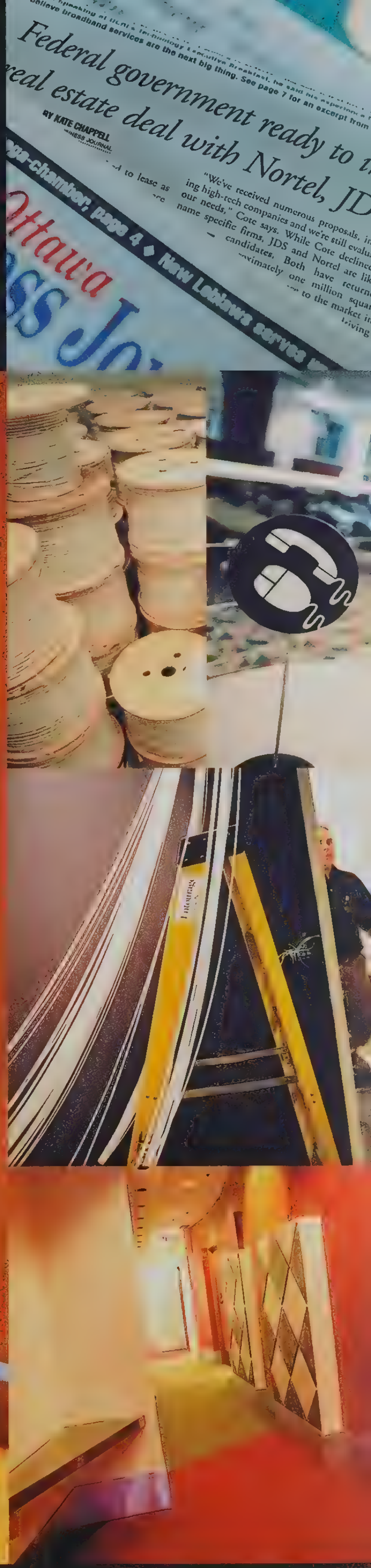
At 230 Queen Street in Ottawa, we converted vacant theatre space into office space, which was 100% leased on completion.

> “We are confident about our cash flow growth in an environment where people are very concerned about losses.”

ROB-TV INTERVIEW, MARCH 29, 20

In real estate, follow-through can be measured largely by cash flow and cash flow growth. Since 1996, Dundee Realty has achieved substantial growth in diluted funds from operations per share – including 21% in 2001 alone. Diluted net income per share showed impressive growth in 2001 of 134%, and has achieved a compounded annual growth rate of 35% since 1996. Dundee Realty established several new sources of rental income this past year, thus ensuring further growth for the year ahead.

Geographic diversity and a healthy tenant mix are key to mitigating our risk and ensuring a healthy cash flow. No single tenant or economic sector will determine the value or stability of our portfolio.



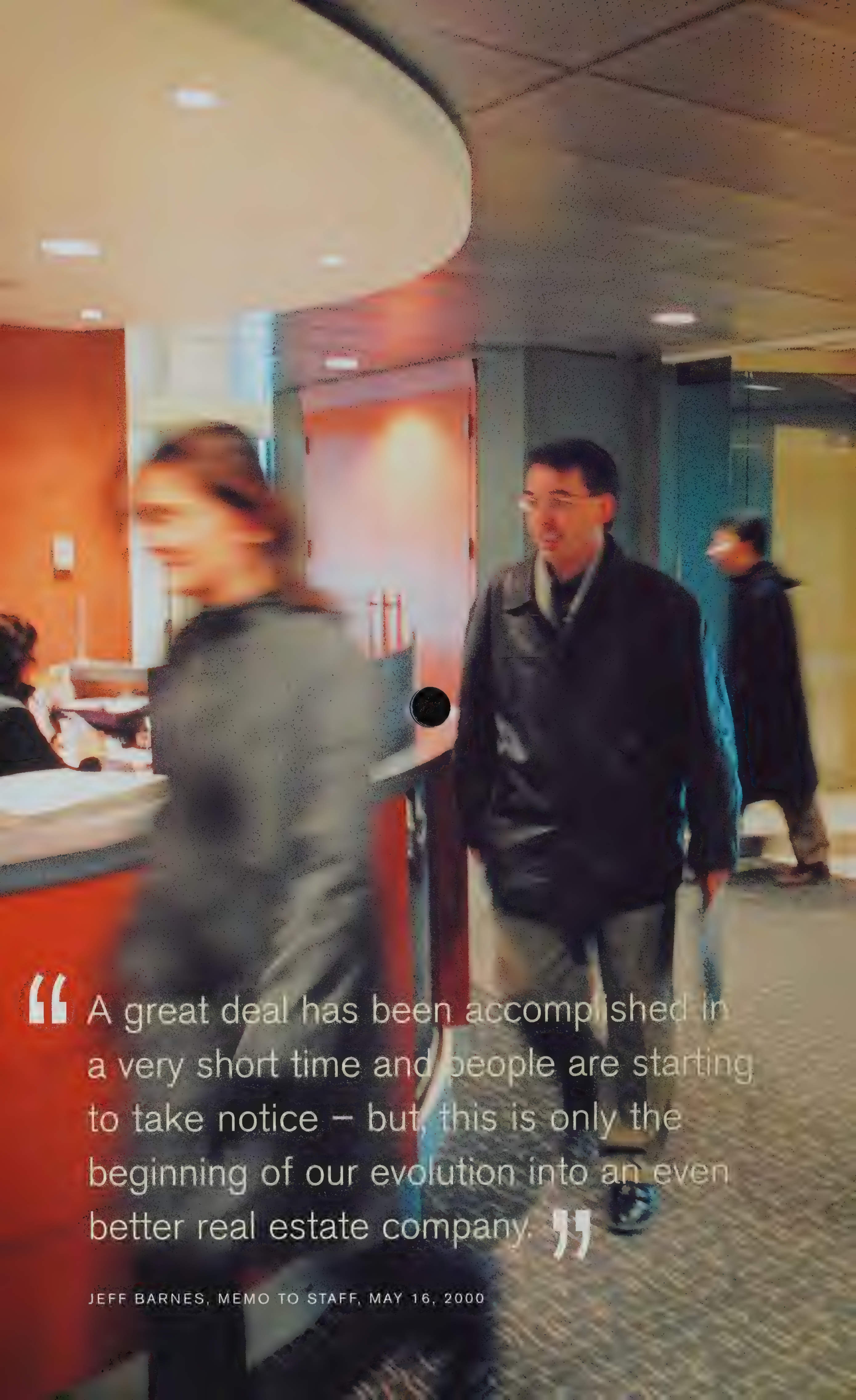
Although Ottawa-based Nortel Networks vacated both of our Fitzgerald Road buildings following the high-tech market decline, Dundee Realty's rental income didn't skip a beat. The properties were quickly re-leased to the federal government – a long-time Dundee Realty tenant in the region. Furthermore, by letting Nortel out of its lease obligations, we were able to negotiate a direct deal with the new tenant that led to an increase in rent.

“Dundee Realty has always had sound fiscal management and practiced safe debt.”

1998 ANNUAL REPORT

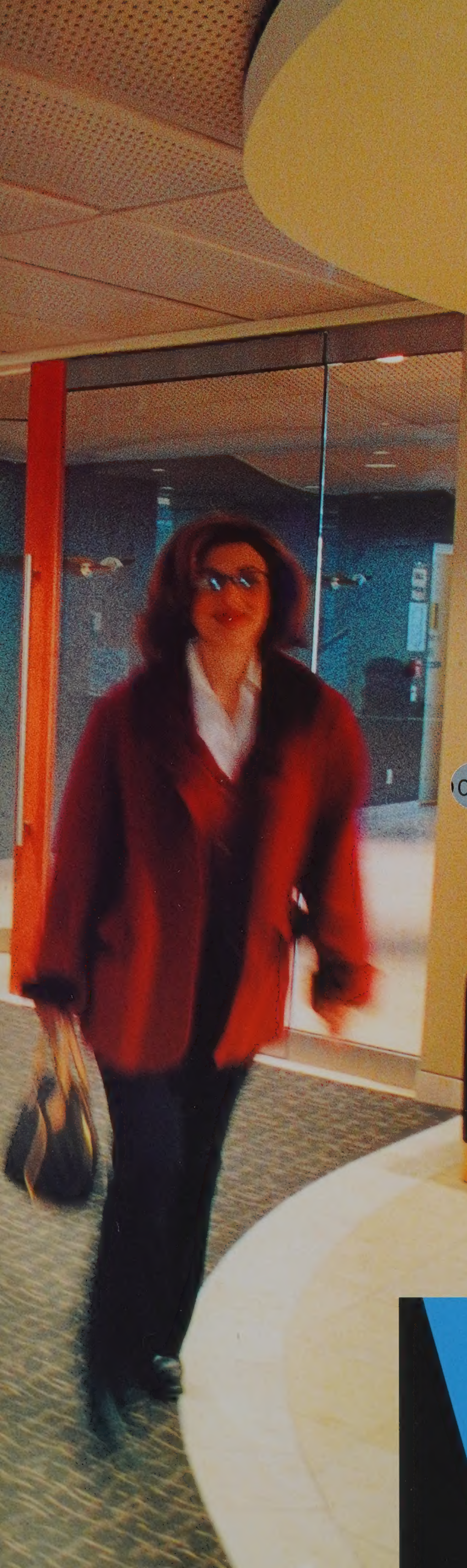
Discipline in debt management ensures Dundee Realty's viability, regardless of economic conditions. While the real estate industry's debt-to-equity ratio is considered to be conservatively managed at 2:1, we are more comfortable with a ratio closer to 1:1. Having the proper debt structure ensures that we have the cash on hand to pursue further growth and obtain the highest possible yield from our portfolio. To minimize our debt exposure in major development projects, we partner with investors and tenants whenever possible, as we did with 30 Adelaide Street East and the Pantages Tower in Toronto.

In 2001, Dundee Realty successfully refinanced all of our maturing debt. This lowered our weighted average interest rate from 7.4% in 2000 to 7.0% in 2001, and extended our average term to maturity. In 2002, the trend of renewing mortgages at lower interest rates than maturing debt continues.



"A great deal has been accomplished in a very short time and people are starting to take notice – but, this is only the beginning of our evolution into an even better real estate company."

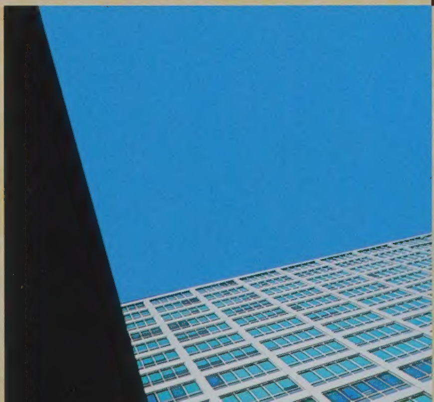
JEFF BARNES, MEMO TO STAFF, MAY 16, 2000



Dundee Realty has assembled the right mix of people and properties to keep the momentum building. In 2001, we were ranked third by both the Profit 100 and the Financial Post 500 surveys of Canada's fastest growing companies, following a record-breaking five year revenue growth of 47,355%.

A great deal of our success must be attributed to our people. Dundee Realty has cultivated a close-knit team of experienced and skilled individuals, whose input is recognized and encouraged. Our energetic, informal work environment and open management style help us to attract and retain the best people, while our new office space in the State Street Financial Centre supports a culture of innovation and open communication.

Every year we get better. Dundee Realty's healthy cash flow, conservative debt ratio, growing reputation and core values position us to follow through on our strategy to increase shareholder value wherever opportunities arise. There is no standing still.



Completed and 100% leased in just over two years, the State Street Financial Centre earned Dundee Realty two NAIOP awards in 2001 – Office Project of the Year and Office Deal of the Year.


2
$1.1
BILLION IN ASSETS
18
11.8
MILLION SQUARE FEET
OF REVENUE PROPERTIES
1.21:1


GROWTH IN FUNDS
FROM OPERATIONS
664
LOTS SOLD
2001
PROPERTIES
OVERALL OCCUPANCY
94%
DEBT-TO-EQUITY RATIO
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